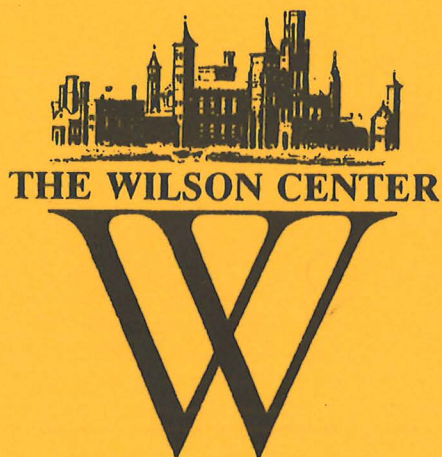


WORKING PAPERS

Number 189

**THE UNDERSIDE OF THE DEBT:
A Rapporteur's Report**

LATIN AMERICAN PROGRAM



SMITHSONIAN INSTITUTION BUILDING

WASHINGTON DC 20560

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**THE UNDERSIDE OF THE DEBT:
A Rapporteur's Report**

Guy Pfeffermann, Jeffry Frieden, Joan Nelson, William McGreevey
Elaine Zuckerman, Sheldon Annis, Peter Henriot, Sally Yudelman,
Andrew I. Rudman

This rapporteur's report of the presentations at the Spring 1988 Economic Issues series, "The Underside of the Debt," was prepared by Andrew I. Rudman, Sr. Program Associate of the Latin American Program of the Woodrow Wilson Center for International Scholars. The series was sponsored by the Woodrow Wilson International Center for Scholars, Washington, D.C., the World Bank, and the Inter-American Development Bank.

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This essay is one of a series of Working Papers of the Latin American Program of the Woodrow Wilson International Center for Scholars. The series includes papers in the humanities and social sciences by Program Fellows, Guest Scholars, workshops, colloquia, and conferences. The series aims to extend the Program's discussions to a wider community throughout the Americas, to help authors obtain timely criticism of work in progress, and to provide, directly or indirectly, scholarly and intellectual context for contemporary policy concerns. Support to make distribution possible is provided by the Inter-American Development Bank and the World Bank.

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INTRODUCTION

The many arduous sessions that have been held to reschedule Latin America's external debt have focused on issues of balance of payments, public finance, and monetary policy, alongside longer-term questions of economic restructuring. The impact of these issues on the poor has been a secondary consideration at best.

When the debt crisis first appeared in Latin America at the beginning of the 1980s, conventional wisdom suggested that it would be short-lived if stringent austerity measures were implemented. The poor could be ignored for this brief period, after which conditions for all would improve. As it became increasingly clear that the debt crisis would be a long-term problem, banks and other holders of Latin American debt have been forced to shift from short-term adjustment and crisis management policies to viable and constructive long-term policies. Therefore the economic impact of structural adjustment on the poor, a vast majority of Latin American society, becomes an issue of increasing concern and importance. How do the poor relate to the policy process? To explore various facets of this issue, the Latin American Program conducted four seminars within the Economic Issues series entitled, "The Underside of the Debt."

The major theme running through all the seminars was the potential to pursue comprehensive, effective structural adjustment programs without causing further deterioration of the living standards of the poor. The reallocation of mistargeted resources was endorsed as the best method of achieving this goal. The reallocation of education subsidies from university to primary levels was one of the most often cited alternatives. Short-term compensatory programs designed to protect specifically targeted groups until the adjustment-induced growth could reabsorb them also was advocated strongly. In both cases, as well as in others, the goal is to train or retrain the poor so that they can contribute to the development of their country.

Radical resource reallocation is not without political consequence. During the crisis the poor have learned how to organize themselves better to press for improved living conditions. Often the resource reallocation they demand comes at the expense of the middle class. The potential for conflict between these two groups is significant since the new democratic governments are often indebted to the middle class, a major portion of the fragile government's support. Whereas the military dictatorships of the 1970s were able to impose their will by force, the new democracies must

simultaneously meet the needs of their constituents and resolve the current economic crisis.

The paper for Session One, "Adjustment and the Latin American Poor," was presented by Guy Pfeffermann, the Chief of the Debt and Macroeconomic Adjustment Division of the World Bank. The second session, "The Political Economy of Want," featured papers by Jeffrey Frieden, Assistant Professor of Political Science at the University of California Los Angeles and Joan Nelson, a Fellow at the Overseas Development Council. "Safety Nets and Public Policy," the third session of the series was conducted by William McGreevey, Team Leader for Population, Health, Nutrition, Division of Human Resources, The World Bank and Elaine Zuckerman, Policy Analyst for Poverty and Adjustment Issues at the World Bank. Three papers were presented in the fourth and final session, "Popular Organizations and Survival Strategies in Latin America." Sheldon Annis, a Fellow at the Overseas Development Council and a visiting lecturer at the Woodrow Wilson School at Princeton University was followed by Peter Henriot, S.J., the Executive Director of Center for Concern, Washington, D.C. and by Sally Yudelman, Senior Fellow at the International Center for Research on Women. The hope of the Wilson Center that publication of the proceedings of this series on "The Underside of Debt" will promote further discussion and research. The poor, as many of the participants stressed, are a potentially productive element of Latin American society whose role in the adjustment process cannot be underestimated.

Andrew I. Rudman
Rapporteur

SESSION ONE

Adjustment and the Latin American Poor: What do we know?

GUY PFEFFERMANN

The World Bank

"Ensuring that the Latin American poor benefit from improved policies"

Introduction

After 25 years of unprecedented growth and social progress, in the early 1980s incomes suffered their greatest drop since the Great Depression. With the exceptions of Brazil, Colombia and Panama, where pre-crisis levels have been regained, per capita incomes in Latin America are today lower than they were at the beginning of the 1980s.

There was much concern about poverty and income distribution during the years of rapid growth; however the poor were doing far better during the fast-growth period than today. This prompts a series of questions: What has been the fate of the poor during the 1980s? How have they been affected by the economic policies of their countries? What has been done to mitigate the blow? What more can be done by the countries? What can be done by outsiders: OECD governments, aid institutions, and non-government organizations?

Although the emphasis in discussions of adjustment has appropriately focused on LDC policies; the economic policies of the industrialized countries and how they affect the poor in the developing countries must also be considered.

Why adjustment?

The first 25 post-war years can be characterized as years of fast OECD growth, sizeable capital transfers, moderate real interest rates, substantial import of agricultural products by the industrial countries, and a gradual reduction in protectionism. In contrast, the 1980s are characterized by the lowest real commodity prices in the twentieth century, high real interest rates, increasing protectionism and increasing competition from the industrial countries' subsidized agricultural products. The debt burden has worsened and resources have been transferred out of Latin America on a larger scale than was the case in Weimar Germany.

The countries of Latin America face the adjustment to a tremendously brutal and prolonged drop in available resources. The net inflow of capital fell during the decade from over \$25 billion per year to less than \$10 billion while terms of trade deteriorated by twenty per cent. Combined with a \$10 billion increase in interest rates, Latin America faced a loss of nearly \$45 billion or one half of total merchandise exports in 1980.

Adjustment is therefore a necessity rather than something forced upon the countries by the World Bank or the IMF. The foreign exchange provided by these institutions allows the countries to spread the adjustment period out over a longer period of time. Additionally, the sustained growth necessary to alleviate long-term poverty would have required a reorientation toward increased exports and greater efficiency regardless of whether or not a crisis arose. The World Bank would have played a role in Latin American development even if the current crisis had been averted.

Current conditions should be compared not to pre-crisis conditions but to what might have occurred without adjustment. Bolivia is an example of the perils of not adjusting. Several years of policy drift gave rise to a 20,000% inflation rate and massive transfers from poor to rich through the use of differential exchange rates. New adjustment policies have led to a basis for recovery without which the country would have fallen into chaos, to the detriment of the poor.

The plight of the poor

First of all, policy-makers, both in and out of Latin America, must identify the poor. The paucity of data makes this much more difficult than one might imagine. Broadly, the poor are overwhelmingly rural, despite government and NGO claims that the poverty problem rests in the slum areas. Of the rural poor, landless laborers are the most vulnerable because they must buy most of their food. The poorest residents of urban areas are the unemployed and those who are "self-employed" in the informal sector. Unskilled construction workers are usually the poorest of the wage earners.

Open unemployment, traditionally low in Latin America due to the absence of unemployment insurance, became a major fact of life in the cities. According to official statistics, not a single formal sector job has been created in Mexico since 1981 although 700,000 teens reach labor-force age every year. Although an impossible figure, it nevertheless

reflects the strength of Mexico's informal sector. The growth in maquiladora employment has helped remove some of the burden from Mexico City as well.

Mounting open unemployment has kept many rural people who would have emigrated to the cities in the rural areas where social services are far worse. Massive wage reductions of thirty to forty per cent have contributed to this migratory slow-down.

The provision of social services and educational services has also deteriorated within the cities as a result of budget cuts. This deterioration is likely to have long-term adverse consequences.

Policies which help the poor

Resumed growth is the only way to help the poor. The resumption of sustainable growth in Latin America requires action in a number of policy areas including: improved savings mobilization, encouragement of private investment (including direct foreign investment and strengthened export incentives) and the creation of a framework conducive to a climate of confidence. These types of policies will eventually help reduce poverty but they can cut both ways. A devaluation will help agricultural exports and thus the poorest people. Import tariff reductions help all consumers, including the poor. But fiscal and credit austerity can be detrimental to the poor unless efforts are made to shield them from general expenditure cuts. Many subsidy cuts can be implemented without harming the poor. General subsidies usually benefit the rich most of all and should therefore be reviewed critically. Out of a \$100 dollar subsidy on tortillas, for example, only \$10 goes to the poorest 20 percent while \$90 goes to the more affluent families. Additionally, subsidies are generally concentrated in urban areas while the poorest people are in rural areas.

There are three methods of retargeting food subsidies. First, they should focus on foods overwhelmingly concentrated in low-income households. In Mexico, these include maize in grain form, beans, pork fat and solid brown sugar, of which the poor eat proportionally more than other groups. Targeting can also be done by location of outlets in the poorest areas. Third, particular families can be given food stamps. Successful targeting requires a good administrative structure which is often lacking in Latin America. Chile and Costa Rica, however, are two countries with the necessary structure.

One of the most progressive policy changes is the elimination of free university education. Ten primary school pupils can be trained for the cost of one university student. Only a small minority of university students are from poor families and they could be protected by a system of scholarships and loans. The savings could then be used to improve and expand primary education, especially in rural areas. On a similar level, more realistic payments by the middle class for social security and public health would free resources to be reallocated toward the improvement and expansion of primary health care networks serving poor communities.

The poor can be protected from the adverse affects of reduced income on health by targeting the most vulnerable groups in society but this, as in the case of food subsidies, requires an efficient bureaucracy. Linking free food distribution and primary health care has shown great benefits. Food distribution, in addition to improving the nutrition of mothers and children, has attracted poor families to health centers. Besides being cost-effective now, such programs help reduce future medical costs. School meals provide similar benefits.

Very little additional money is likely to be available, so programs to help the poor must concentrate on reallocation and efficiency improvements. A two-pronged approach is appropriate here. First, government efforts are necessary to improve the efficiency of their health, education and nutrition ministries and other agencies to free resources for allocation to the poor. Second, a redirection of efforts, such as the previously suggested alterations in the education system, would benefit poorer groups.

Time-phased action programs for each of these ministries and agencies would be a useful step. In the short-run, however, governments should focus on the availability of materials such as medicines, school supplies and similar goods to prevent further deterioration of the current situation. Although small items in a nation's budget; their absence has a crippling effect on delivery systems.

Latin American governments have not used their considerable, often excessive, direct role in the economy to encourage the creation of productive employment. Instead, investment has been directed toward capital intensive projects. In Mexico, a job in a steel mill costs over \$10,000 to create while a job in export processing requires only a \$3000 investment per job created. Governments could also be more imaginative in the use of labor during the construction of public projects. There have been few attempts to increase the labor content of public works where

justified, despite the potential benefit to poor communities in the face of open unemployment and underemployment. This type of reallocation would avoid the fiscal cost of make-work employment programs.

International cooperation

The crucial external economic factors for Latin America are OECD growth rates, commodity prices (which represent 75% of Latin American merchandise exports), international interest rates and the size of net capital inflows into the region. Moderate OECD growth is likely. Prices for agricultural goods and petroleum are not expected to increase. Only modest per-capita growth can be expected in Latin America in 1989. Clearly Latin America is in no position to withstand another severe external shock. Ideally, the dollar's depreciation will not bring renewed inflation or a concurrent rise in international interest rates.

Policy Prescriptions

The industrialized countries can help Latin America by increasing imports, especially in the face of the U.S. trade deficit reduction which is likely to be deflationary. Liberalization of agricultural policies (particularly sugar) would be of direct benefit to the poor.

Multilateral institutions must ensure larger capital flows in support of development as well as more substantial flows from official credit agencies and other sources of finance. The World Bank, for example, has stepped up its own disbursements to the region and is trying to attract complimentary financing from other sources. Commitments to Latin America have risen from about \$3 billion in the early 1980s to over \$5 billion in the fiscal year ending June 1988. The increase in disbursements has come largely from policy support operations for structural and sectoral adjustment.

Expansion of lending alone does not ensure that the Bank is helping governments shield the poor from the adverse effects of structural adjustment. One proposal is to use policy lending in support of improvements in health, nutrition and education. Cooperation with NGOs is another promising option. In Bolivia, the World Bank and other aid agencies are providing funds to the government to make the adjustment less painful. NGOs are uniquely qualified to assist in the design and implementation of programs designed to help families. NGO efficiency is, however, now being questioned. Despite their enormous funding, it is

unclear how effectively these resources are used or how easy it is to replicate their programs.

DISCUSSION

Pfeffermann's assertions regarding the outlook for structural adjustment in the region prompted a number of comments. William McGreevey of the World Bank asked what groups supported structural adjustment within the region. Pfeffermann replied that there are differences in each country. Chile has begun to feel the benefits of the policies and it is the opinion of Chilean policy makers that regardless of the outcome of the elections, the policies are not likely to change. Pfeffermann suggested that Uruguay may be the next country to "cross the desert." If Brazil and Argentina do well, Uruguay should also benefit while if Argentina fails, Uruguay will be the recipient of its capital flight.

Mexico, continued Pfeffermann, represents an example of failure despite serious efforts to make improvements. Only exporters support structural adjustment because of the current exchange rate and the collapse of internal markets. The Mexican Federation of Employers supports an increased minimum wage in order to prevent the complete collapse of internal markets. Argentina, on the other hand, has made only slight efforts as yet. The public sector deficit has not been reduced which demonstrates that one problem cannot be solved if macro structural inequalities remain.

The potential for debt relief prompted spirited discussion. Pfeffermann noted that only Chile and South Korea had taken the drastic step of raising taxes and reducing expenditures. Borrowing, which includes the risk of crowding out the private sector and printing money are the only other options. As Peru and Brazil demonstrate, refusing to pay the debt must be accompanied by sound economic policy if it is to be successful. One of the participants accepted Pfeffermann's reply but maintained that debt relief, not simply stretching out payments, was a vital part of the recovery. He went on to discuss the Mexican debt-equity swaps which were not as successful as had been hoped because they did not provide sufficient incentive to potential bidders.

Another issue discussed at length was the concept of resource reallocation. Again Chile and South Korea are the only nations able to reallocate subsidies while maintaining credibility, albeit at great political cost. This does not seem to bode well for the new democracies of Latin America.

Pfeffermann was not overly optimistic about the new democracies, predicting that if growth does not come from the structural adjustment policies, swings to the left or right in the region are possible. Brazil's new leadership, to cite one example, is likely to be more indebted to the middle classes than were the dictatorships. Meanwhile, structural adjustment, initially thought to require three to four years, may require ten to fifteen years to achieve tangible improvement. This is a long period of austerity for a country to endure while still in the early stages of democratization.

SESSION TWO

The Political Economy of Want: do the Latin American poor figure in policy making?

JEFFRY FRIEDEN

University of California-Los Angeles

"Poverty and Policy Making in Historical Perspective"

There are three questions which should be considered in a discussion of policy making and the poor. The first is what kinds of policy might have different effects on the poor than those currently felt? Second, what impact would various policies have on the poor? Finally, what is the role of international institutions and agencies in designing and/or encouraging policies which will address the issue of the poor?

This paper seeks to briefly address four issue areas within the context of the session. First, it identifies the historical and contemporary roots of current income distribution in Latin America. Then it considers how income policies effect income distribution. Third, it asks how the current crisis is effecting some of the political concerns. Finally, the paper considers how pressures for various economic policies might affect the poor.

The general thrust of this argument is that the position of the poor in Latin America must be understood as a byproduct of development policies that were pursued not because of specific or direct pressures from the poor themselves but due to pressures coming primarily from international economy, domestic interest groups, or political pressures. To understand the roots of the policies, it must be remembered that Latin America had to respond to to the international economic environment. The nations of the region responded in ways largely colored by domestic political conflict, bargaining, and negotiations among the politically important forces in the various countries.

The roots of modern Latin America's economic and political patterns lie in the 1930s and 40s. The international economic effects were quite straightforward in the 1930s. Export earnings were fell and import prices rose such that the terms of trade turned substantially against Latin America by an average of 50-60%. Real exchange rates declined dramatically and this lead to what we now call "natural import substitution" in which Latin America's industrial plant developed without

external competition. From the beginning of World War Two until the conclusion of the Korean War international trade and payments were abnormal, from the Latin American perspective. During this period, the supply of manufactured goods suddenly became relatively thin. The industrial plant grew up as a result of natural external economic reasons, not due to a concerted economic policy. The industrial plant in Latin America, which was fairly large by international and historical standards by the mid 50s, thus developed without international competition.

In the 1950s world trade rebounded from its World War Two lull. General world-wide trade patterns may have been similar; but for Latin America there was a difference. During the 30s and 40s, a series of domestic social, economic, and political interest groups based in the urban centers formed and in the 50s used their political influence to ensure that economic policies were designed to protect them from international competition. Latin America thus shifted to a policy of intentional import substitution industrialization (ISI) which led to more intensive use of capital than comparative advantage would dictate.

There were tariffs or quotas on manufactured imports, especially finished goods, yet no comparable restrictions on the import of capital equipment. Thus manufacturers could import equipment cheaply and then sell the products in a highly protected domestic market. The currencies of most of the region's countries were beginning a cycle of chronic overvaluation in this period which led to periodic balance of payments crises. Chronic overvaluation also meant that capital equipment was relatively inexpensive while the protectionist policies prevented the overvalued currency causing an increase in imports. Some policies effectively or even directly taxed exports while subsidizing import substitution industries. These policies contributed to the current crisis by encouraging the use of capital, reducing the cost of capital imports, in a sense taxing exports, and protecting domestic finished goods production.

These policies had a significant, if largely unintended, effect on the contours of poverty in Latin America. ISI policies were biased against agriculture. Internal terms of trade favored industry so agricultural production stagnated. Since agriculture was unprotected, prices had to remain low to compete with potential imports. A rural exodus followed. Because Latin American industry is capital intensive (as a result of economic policy) there were few jobs for the unskilled migrants. The policies discussed above encouraged firms to increase capital stock such that even agriculture became capital intensive. As a result, many potential sources of job growth were stagnant. The economic policies chosen and the

capital intensive nature of Latin American agriculture have created, as a by-product, the current position of the poor.

The roots of the rapid industrialization and import substitution policies can be seen in a combination of the international economic conditions and the domestic political coalitions that responded to international conditions. Looking at the present and into the future, it is clear that the international economic environment has changed since the 1950-1980s period. We have clearly come to the end of an era. Capital has become substantially more expensive and real interest rates are substantially higher for Latin America. Realistically speaking, it is virtually implausible that real net transfers of capital will, in the foreseeable future, return to the pattern of the 1960s and 70s. There are significant pressures to increase exports and reduce imports in a far more competitive international economic environment. Multinational corporations prefer to develop productive facilities that can be integrated into a globally competitive production process than to engage in "tariff jumping activities" by investing in heavily protected Argentina, Brazil, or Mexico.

Although capital goods have become increasingly expensive and the flow of capital to Latin America has slowed, it is unlikely that Latin American governments will make the policy decisions which directly respond to current conditions. Instead, existing industries which have political influence may be protected. Fledgling or non-existent industries do not possess the lobbying power needed to force a policy reorientation. There is a lot of room for economic policy in Latin America to continue to protect existing industry even if this comes at the expense of continued or even deepened marginalism. In some cases, a rapid dismantling of protection would be counterproductive. The Argentine experience in the late 70s is especially revealing. However even if it were agreed that some reduction of protection was necessary, there is nothing to suggest that this would be the likely political outcome.

Both labor and capital in existing industries tend to resist measures that they perceive as threatening. Economic policy-makers thus face a dilemma. Existing industry was built up at great cost. A national entrepreneurial class has grown up as has an organized working class. Both of these groups have major political power. If the government is able to reduce its support for these groups, it might be able to build a new development model that might better incorporate the poor. On the other hand, the current policy can be maintained or expanded in the hope that the poor will somehow survive until the crisis is resolved. The protected

industries of Latin America have established a political base from which they can influence policy. Although the government might be able to create a new, more all-inclusive development model if it reduced its support of the protected groups, this is not probable.

Comparisons are often made between Latin America and Southeast Asia, specifically South Korea. These comparisons portray South Korea as a polar opposite of the Latin American countries. There are a number of significant differences among the regions. Wages grew at a slower pace than productivity in South Korea. The currency was rarely overvalued and, in fact, often undervalued. South Korea experienced no systematic oversubsidization of capital. Fewer incentives existed to use capital while there were numerous incentives to use labor. Another significant difference was the support for traditional agriculture in South Korea which was not replicated by the urban based Latin-American regimes. The support for agriculture meant that rural migration was reduced due to higher real wages in rural sectors. These differences are important but do not make South Korea a polar opposite of Latin America.

Income inequality is growing in South Korea, although not on a sectoral basis as in Latin America. In summary, South Korea is an open, export-oriented country with low average wages and little marginalism whereas Latin America is characterized as a closed, import subsidizing region of high inequality and marginalism.

JOAN NELSON
Overseas Development Council

"Political Options for the Poor"

The poor do not, alone, figure in the policy-making process. However there are short-term situations in which the poor can join with other groups to affect policy. The impact of the poor has not necessarily been in either their own nor in the nation's best interest. A discussion on the influence of the poor on policy should be followed by a review of some of the measures which creditor and donor institutions are now pressing on Latin American countries to increase equity.

Some of the political reactions to short-run stabilization measures can be understood as an overlap rather than a divergence of interest among the poor and middle sectors. When governments adopt short-term stabilization measures designed simply to meet the terms of IMF standby loans, instead of restructuring the economy, there is a natural overlap of interest between middle and urban marginal sectors. The IMF recommended measures (increases in food prices, utility rates, bus fares and nominal wage freezes) that are instantaneous and effect much of the urban population. These measures are also transparent, that is, the origin of the change is easily identifiable. The result is wide-spread urban protests with extensive middle sector support. These middle sectors comprise a major source of support for the government. Protests are, at best, embarrassing to governments and, at worst, can cause a loss of international support and economic confidence. Thus the interests of the poor, when allied with the middle sector, cannot be ignored.

Costa Rica and Chile, two countries with very different political systems, are examples of countries where protests have forced the government to back down. But this effectiveness may not always be good in the long-term for any group. When governments are forced to back down from very transparent spending reduction policies they may be forced to implement other policies, such as monetary measures which may have less obvious but more serious implications for both the poor and the middle sectors.

Governments generally express concern for the poor immediately before elections. There is a well-known pattern of governments loosening

general macroeconomic policies in the year preceding an election.¹ The Jamaican experience in the mid-1980s is especially revealing. Prime Minister Edward Seaga loosened economic policy before the 1986 elections to gain support for his party. Mexico presents another example of the pattern, this in a country where electoral competition is minimal. In both cases the poor and middle classes allied to force an alteration of government policy. In Peru, to cite one more example, Alan Garcia's original program contained a concerted effort to address traditional agriculture to prevent protests and potential defections to the Sendero Luminoso guerrillas.

The Role of International Institutions

The perception that the crisis would be quickly overcome allowed agencies and governments to ignore the poor. As the severity and longevity of the crisis was revealed, it became "morally unacceptable to keep poverty off the agenda." The current World Bank position is that even during periods of austerity, the poor can be assisted. One particular program advocated by the Bank is food subsidies. These subsidies can be retargeted to lower income groups and away from middle and upper income groups to produce greater equity while reducing spending. The same type of retargeting can be applied to health and education spending.

Efforts to retarget expenditure work against the poor-middle sector alliance since it is the middle sector which will be required to surrender benefits in favor of the poor. Just as the alliance of poor and middle sectors can force a government reaction, the potential withdrawal of politically influential middle sectors can provoke an opposite reaction. Jamaica again serves as an example. A tripartite commission of the World Bank, the IMF and AID argued that by retargeting expenditures and abandoning the general food subsidy, the truly poor could be reached for one-fourth the cost. Seaga rejected this plan because the Jamaican people would not accept a vast extended dole program. It is likely that his underlying reason was the fear of losing the support of the middle class, his power base. Only in Sri Lanka have general subsidies been successfully retargeted. Have the World Bank and AID faced up to this reality?

¹ Barry Ames, in Political Survival: Politicians and Public Policy in Latin America (Berkeley: University of California Press, 1987), looks at patterns in seventeen Latin American countries between 1965-1975 and confirms this pattern.

DISCUSSION

The majority of the discussion period centered around Frieden's comparison of Brazil and South Korea. Frederica Santos of the Federal Reserve Board remarked that the Brazilian government sacrificed improvements in social welfare for rapid economic growth. She referred to a work by Edmar Bacha which states that a slow down of growth is necessary to improve income distribution.² She agreed with Frieden's assessment that the higher supply of skilled labor in South Korea has allowed for a reliance on labor instead of imported capital goods which also creates a more equitable distribution of income. The debt crisis has required the Brazilian government to continue to borrow, regardless of the crowding out effect on the private sector. The result has been that Brazilian industry cannot invest enough to reach South Korean levels.

It was then suggested that the Brazilian case proves that export promotion does not benefit the poor. Frieden responded that Brazil protects domestic industry and promotes exports just as South Korea does. The problem in Latin America is not one of trade, but one of price distortions. Capital is underpriced and labor is overpriced so industry is capital intensive, contrary to the logical assumption that it would be labor intensive. The same participant then asked how Frieden could explain the disparity of income distribution between Brazil and South Korea. Export shares are not the cause of South Korea's relatively good income distribution since distribution had been more equitable before the growth boom.

William Glade of the Wilson Center proposed that the differences between the two nations might be the product of differences in demographic behavior. There has been a decline in population growth in South Korea not found in Latin America as well as greater reliance on agriculture. Joan Nelson included the role of international finance after the Korean War as another significant factor. Korea received loans, grants and debt relief from international agencies in support of its rebuilding effort. Latin America did not benefit in a similar fashion. Frieden cautioned that South Korea, while an instructive case, cannot be reproduced since its growth came as a result of extensive international aid and involuntary land reform in the post-war aftermath. In regard to the demographic question, Frieden mentioned that economic historians claim that small farming of the South Korean type leads to small families as opposed to the

² See for example, Edmar Bacha's "Economic Growth, urban and rural salaries: The Case of Brazil," Brazilian Economic Studies 7, 1983.

semi-marginal rural farming prevalent in Latin America. Nelson added that higher infant mortality rates may encourage larger families.

One participant remarked that the issue should not be the condition of the poor or middle classes now but what they would have been without structural adjustment (a point made by Guy Pfeffermann in the previous session). It is not clear that structural adjustment can be separated from the international economic situation as a whole. Ms. Santos suggested that the economic policies have been inflationary thus eroding all wage gains. The income distribution may be better, but there is a need for investment in human capital to bring marginals into the system. The education of their children is one suggested approach. Frieden advises that it is difficult to compare labor statistics but that for comparable jobs, wages in Brazilian modern industry are twice as high as their South Korean counterparts. The demand for skilled labor in Brazil is higher because of the reliance on capital intensive industry. Human capital formation policies, including overcoming malnutrition, housing and sanitation improvements, and education, are areas in which multinationals might be effective.

Education policy, particularly the reallocation of funds and the payment of university tuition, was of great interest. There is a reluctance to charge tuition in Latin America because the ability to provide free education is viewed as a source of pride and a reflection of independence. Nelson pointed out that universities, medical schools and hospitals act as pressure groups.

The focus of Nelson's paper, the poor/middle class alliance, also was of interest. Susan Pazzullo of the Inter-American Fund asked if the roll-back of corporatism brought on by a lack of resources had led to an increase in the influence of groups specifically representing the poor. The state's limited resources require the state to engage the peasants when searching for compromise. Pazzullo cited the rejection of fixed prices on agricultural goods as an example. She asked if this represents a trend. Nelson replied that there had been a long-term tendency toward political consciousness of the poor in the form of a trickle-down. The growth of the ability of lower classes to act as a unit, often through unorthodox means, has increased their ability to exercise influence.

SESSION THREE

Safety Nets and Public Policy: the adjustment process and cushioning mechanisms

ELAINE ZUCKERMAN
World Bank

"Poverty and Adjustment: Issues and Practices"

This paper has three sections. The first discusses some salient issues concerning poverty and adjustment. The second presents examples to illustrate how countries in practice have treated the poor during adjustment. The third proposes some solutions.

ISSUES:

Adjustment-induced Poverty: Distinguishing adjustment-induced poverty from poverty which has resulted from other causes such as external shocks, economic mismanagement and lack of effective social policies in the past is difficult. These factors usually combine to intensify poverty. However, in the past few years, government officials, staff of development agencies and academics have realized that otherwise desirable adjustment programs may cause declines in income for some socio-economic groups and make it harder to meet the needs of the extreme poor.

Some UN agencies (notably UNICEF and the ILO) and academics (such as Helleiner and Kanbur) have written about the social impact of adjustment. The IMF vilified for years for undertaking stabilization programs with a blind eye to the social impact, presented a report to its Board in February 1988 which assessed the impact of its stabilization programs on the poor in eight countries (Chile, Dominican Republic, Ghana, Kenya, Morocco, Philippines, Sri Lanka and Thailand). The report concluded that there are negative (and positive) effects on the poor and that they should be protected, for example, through exempting food consumed primarily by the poor from full price increases, through rationing and emergency employment schemes. The IMF Board proposed that its country missions before departure discuss poverty issues with Bank country economists and supported the report's recommendation to sensitize Fund staff to distributional issues through training.

The World Bank (Bank) published several booklets in 1986 and 1987 addressing adjustment and poverty linkages (Pfeffermann 1986, Huang and Nicholas 1987; and Demery and Addison 1987). They emphasize that many of the poor have suffered a severe deterioration in their economic conditions as a result of both recession and adjustment. The latest Bank guidelines to staff on preparing Policy Framework Papers require a "brief description and assessment...of the social impact of the government's intended adjustment program" and for Structural Adjustment Lending (SAL) operations require that President's Reports analyze the "short-term impact of the adjustment programs on the urban and rural poor, and measures proposed to alleviate negative effects.. In response, an increasing number of these reports estimate the expected impact on the "new poor"--those impoverished by adjustment programs supposedly in the short-term such as retrenched public sector employees. Some SALs require compensation for the new poor as a condition of SAL disbursement, for example, severance payments for a few months or years and/or retraining. A few recent SAL reports have gone beyond that--devoting considerable analysis to the social impact on the old and new poor and requiring measures be taken to counter the negative effects on them (for example, Chile SAL III). Some countries (for example, Bolivia and Ghana) with donor assistance have initiated programs to alleviate poverty during the adjustment process through complementary operations. Although there is neither systematic analysis of the likely impact nor incorporation of measures to protect the poor in all adjustment programs, there is an accelerating trend in this direction.

Worldwide, owing to the proliferation and deepening of recessions and adjustment programs, poverty has reemerged as a serious concern in recent years. It thrived in development and academic circles in the 1960s during a period of relatively sustained growth. In the early 1970s the Bank refocused its lending program from infrastructure and industrialization to poverty alleviation mainly through integrated rural development and human resource development strategies. These anti-poverty strategies were eclipsed in the first half of the 1980s by the problems of the debt crisis and in many countries the reversal of earlier growth. At first these problems were thought to be transitory. Later it became clear that they would not disappear in the short or medium term.

In most of the highly-indebted middle-income Latin American and low-income Sub-Saharan African countries average real incomes fell substantially in the 1980s. The Bank's major response to the debt crisis and resulting economic recessions was to persuade governments to

restructure their economies, strengthen the balance of payments and restore financial stability through adjustment programs. (IMF stabilization programs were long based on these short-term reform objectives.) Since the first adjustment loan at the end of FY79 through February 1988, over 130 structural and sectoral adjustment operations have been approved for some 55 countries with three quarters of these loans (in number terms) for low-income Sub-Saharan Africa and the highly indebted middle-income countries. It is now recognized that poverty was neglected during most of these adjustment operations. Today adjustment programs are being broadened to include both a concern for social welfare and the restoration of economic growth, a longer-term objective. Renewed growth in the long run is essential for sustained social progress.

Poverty Groups in Adjustment: In most countries, it is difficult to identify "who is getting hit" by adjustment for lack of data (discussed more fully below). Acknowledging that lack of data complicates identification of poverty groups, to whatever extent possible three broad poverty groups should be addressed in the context of adjustment operations.

First, the "new poor" who are the direct victims of adjustment, such as retrenched civil servants (among whom some may not necessarily become poor, just poorer) and laid off public and private enterprise employees. Second, low income and vulnerable groups who are affected most severely by changes in the availability and prices of major items of consumption, especially food, and by cutbacks in social programs. The vulnerable are usually "borderline poor" and are hit worst by recessions and adjustment. They include some of the old, infants, lactating and pregnant women, landless and poor farmers. Third, the extreme poor. A portion of this group is affected by adjustment such as those in cities affected by increased food prices, while another portion, usually rural, is little affected because it is too marginalized from production and public expenditure. The extreme poor suffer from malnutrition, illiteracy, disease, short life expectancy and high infant mortality rates. They occupy the bottom 10-20% of the population and often reside in rural areas (Khan 1986, summarizes several of Michael Lipton's extensive poverty studies). Traditional projects have seldom reached them because they are too weak and poor to contribute the required energy and assets. However, many of the extreme poor are potentially productive. They could be singled out for special assistance during adjustment programs because by increasing their access to employment and assets, they could contribute to economic growth. This approach is slowly gaining popularity.

Political Economy Dimensions: While it is admirable for committed donors and academics to insist on protecting the poor during adjustment, only strong and sustained political commitment on the part of policy-makers will effect anti-poverty changes. Key measures to assist poverty groups during adjustment include shifting public social spending away from the rich and middle classes to the poor and improving the efficiency of social expenditures (most social sector bureaucracies are tremendously inefficient). These are highly controversial measures, especially in newly democratizing countries where the middle classes tend to dominate and the poor have little political clout. These political facts limit the scope and speed of reform.

Empirical examples suggest that countries prone to assist the poor are a politically mixed bag. More successful examples can be found in: first, "democracies" with numerous low-income groups (parts of India, Sri Lanka, Costa Rica); second, non-democratic countries with a history of democracy where the motivation is probably to maintain internal stability (Chile); and third, countries lacking democratic traditions but having ideological motivation (China, Cuba, Zimbabwe).

It is interesting to note that periods of recession and adjustment--when the need is greatest--may be politically and psychologically favorable to assisting poor groups. For example, some of the most progressive social programs in the US were created during the Depression. Numerous externally assisted anti-poverty initiatives in developing countries today confirm this.

Should Adjustment Address Poverty? A key issue is whether adjustment programs can and should address poverty. Several country experiences (Section II) suggest that there is considerable scope to support policies and programs which benefit the poor without undermining adjustment. Adjustment programs should be designed to ensure that in the short and medium-term at least the income and standard of living of the poor does not deteriorate further, for example, through ensuring the continued output of subsistence crops (rather than single-mindedly promoting export crop production) and protecting any outlays to the poor in social sectors such as primary education and health care, nutrition and slum upgrading. Since adjustment experiences of most countries have proved to be longer and more arduous than originally imagined, often necessitating follow-up operations to maintain the reform momentum, it is not sufficient to think simply in terms of such transitional measures. Adjustment programs should also promote an improvement in the standard of living of the poor in the long-term usually through

complementary operations. These would include employment and asset creation schemes and expanded social welfare programs for long-term and sustained improvements in the living standards of the poor.

Remedial Measures: The range of measures available to combat poverty during adjustment are discussed in detail by Demery and Addison (Demery and Addison 1987). Rather than repeat these, the type of measures associated with adjustment programs will be discussed.

a) For the "new poor": they are usually transitory, compensatory measures such as emergency public works or food-for-work programs which provide temporary employment or targeted food programs such as stamps or rations to guarantee a minimal nutritional level. These countervailing programs play an important role in ensuring that the basic needs of the new poor are maintained. Bolivia's experiment with the Emergency Social Fund and Ghana's Program of Actions to Mitigate the Social Costs of Adjustment suggest that labor-intensive, NGO and community executed public works projects to rehabilitate or create social infrastructure may constitute an appropriate type of intervention (but they need testing over time). These compensatory programs are of temporary duration (for example Bolivia's is to have a three-year and Ghana's a two-year life) on the assumption that the beneficiaries will be reabsorbed into sectors spurred into growth by adjustment such as tradeables and private enterprise.

b) For vulnerable groups and the extreme poor, social sector targeting is essential. During adjustment, when resources are constrained, retargeting public social expenditures now mistargeted to the better off can assist the poor without the need for additional resources. For the physically incapacitated, targeting is required on a continuing basis. Special targeting interventions are also required to assist the potentially productive extreme poor until they are drawn into the growth process.

There will be inevitable administrative and political difficulties in retargeting to poverty groups but it can be done (Chile and Morocco are doing it). Targeted programs need to be efficiently administered to broad poverty groups as fine targeting tends to have particularly high administrative, monitoring and political costs (Kanbur March 1988).

Identification of those who would qualify for fine targeting requires socio-economic information on all the poor which is difficult and expensive to collect and update (particularly as the poor population may shift) and there are always leakages. Targeting a poor geographical area with social services and subsidizing food consumed primarily by the poor and considered to be inferior goods by the rich constitute broader, more efficient targets. Resources for targeting could be collected both through recovering costs from public social services provided to the better off and through shifting social services for those who can afford to pay from the public to the private sectors. Additional savings which could be applied to the poor would result from badly needed administrative reforms to the highly inefficient social service bureaucracies in most developing countries.

In the long term, the human capital of the poor could be nurtured through provision of education, training programs, clean water supply, health care services and social security. Their physical capital could be developed through credit schemes (such as the Grameen Bank in Bangladesh) and distribution of assets such as land, livestock and tools in rural areas or jobs in urban areas. Only policies that foster the participation of the poor into the process of economic growth by increasing their access to productive assets and employment will reduce poverty.

Tradeoffs. Some adjustment policy measures may alleviate poverty for some groups while exacerbating it for others. For example, removing the disincentive of administrative prices on agricultural products would benefit those farmers who market their crops. At the same time, the resulting increases in food prices would exacerbate the burden on the landless and poor urban dwellers. The interests of net sellers and net purchasers of food are diametrically opposed and there is a tradeoff between producer poverty and consumer poverty groups (Besley and Kanbur 1987). More generally, those engaged in tradeable activities would benefit and those in nontradeable activities would suffer from adjustment policies which usually emphasize output switching to tradeables.

Data: To permit policy-makers to target poverty groups, identify sectors needing greatest attention and judge the success of policies aimed at protecting living standards and alleviating poverty during adjustment, we need time-series household data. Such data are sorely lacking in most developing countries. Hence the requirement that Policy Framework Papers and SAL documents assess the social impact of adjustment programs elicits the common response that the necessary data are lacking. Given the pressing need to confront poverty during adjustment, a two-pronged strategy should be adopted: one, work with whatever, however

little, data are available to undertake anti-poverty programs and, two, assist countries to establish sound data collection capacities through mechanisms such as household surveys which measure basic social indicators--employment, income, assets, consumption, nutrition, health and education status, access to health, education and water supply services, etc. Special efforts are needed to include vulnerable groups.

Two major efforts to refine household survey collection methods and content in developing countries are underway in order to analyze the effects of policies, including adjustment, on income groups. These are the Bank's Living Standards Measurement Study (LSMS) and the UN's National Household Survey Capability Programme (NHSCP). They make available fairly comprehensive and flexible household survey questionnaires to any interested government. The LSMS is producing data so far for Cote d'Ivoire, Ghana, Mauritania, and Peru. Studies (Glewwe and de Tray 1987: Kanbur underway) for Cote d'Ivoire using LSMS data are analyzing the impact of adjustment on the poor by disaggregating income groups by region. However, household survey data are expensive to collect. Even with initial donor assistance, it is uncertain that governments could afford to commit the funds necessary to gather time-series data. Still, as an initial step, just one or two years of data would permit some useful analysis.

Public expenditure reviews, which frequently precede or accompany Bank adjustment programs, also can provide rough data to assess poverty. Recent Bank draft social sector expenditure reviews for Argentina and Brazil propose follow up projects to reallocate resources toward the poor.

The "beneficiary assessment" approach (Salmen 1987) provides a grassroots methodology for designing and evaluating poverty eradication projects during adjustment. Data are collected through community feedback so that higher-quality projects tailored to the needs of beneficiaries could be designed. This approach provides a qualitative complement to and quicker information than the more popular quantitative data collection methods such as household surveys. It is also much more affordable for countries facing budgetary constraints. It is being applied in 17 Bank projects in all four regions and in a wide variety of sectors.

Seminars and Research: Data are also short in analyzing which measures tend to succeed and which to fail to protect the poor during adjustment. The Bank's Country Economics Department (CEC) convened a worldwide symposium in April 1988 to allow government practitioners,

donors and academics to share experiences and proposals for mitigating the effects of adjustment on the poor. The Bank's Economic Development Institute will conduct several regional seminars for senior officials on the social impact of adjustment. The first, for Latin America, will be held in June 1988 in Santiago, Chile. Other agencies (for example some of the Nordic countries and OECD) are also convening seminars to discuss these issues.

Too little research has focused on the income distribution effects of adjustment (Glewwe and de Tray 1987, Kanbur April 1987 and Pfeffermann 1986) and on targeting experiences, partly for want of data. A few studies are underway or planned. CEC intends to sponsor a simulation project on the effects of external shocks and policy responses upon income distribution and poverty first in Latin America and possibly later Sub-Saharan Africa. OECD's Development Center has launched a research program called "Adjustment with Equitable Growth" to estimate the impact of adjustment on income distribution based on seven or eight country cases (Chile, perhaps Costa Rica, Cote d'Ivoire, Ecuador, Ghana, Indonesia, Morocco and Sri Lanka). CEC is also preparing a booklet reviewing the experiences of targeting or mistargeting the poor in health and nutrition programs of six Latin American countries (Argentina, Brazil, Chile, Costa Rica, Dominican Republic and Mexico). Other agencies such as IFAD, ILO and UNICEF and a few academics are also researching these topics.

Lending Instruments and Aid Coordination: At least three types of Bank lending instruments are available to assist the poor during adjustment. Poverty alleviation measures can be incorporated into a) adjustment operations (Chile SAL III, São Tomé and Príncipe SAL I); b) parallel sector investment projects (Bolivia's Emergency Social Fund and Ghana's Program of Actions to Mitigate the Social Costs of Adjustment which provide quick responses; Ghana's and Morocco's Education Sector Loans which provide medium to long-term responses); or (3) complementary technical assistance operations (Argentina's proposed Social Sector Management Technical Assistance Project).

Donor aid should be coordinated to ensure a coherent strategy which avoids duplication. Some donors are extremely committed to poverty eradication in the context of adjustment. For example, the ILO is implementing retraining and employment schemes in numerous countries where adjustment programs have caused public sector retrenchment of employees including Cote d'Ivoire, Gambia, Guinea-Bissau, Mali, Niger, the Philippines, and Senegal. UNICEF's studies (Cornis et. al. 1987) raised

consciousness worldwide and commitment to combat the deteriorating plight of the poor during adjustment.

Country Examples:

The following examples summarize the adjustment process and its social impact in various Latin American countries. Some illustrate negative, some more positive results:

Bolivia: From 1979-85 per capita incomes fell by a third. Hyperinflation reached about 25,000% by 1985. Foreign capital inflows collapsed. Six attempts at stabilization were aborted, sometimes by marches and riots. A severe adjustment program, launched in 1985, succeeded in reducing inflation to 10% by 1987 and produced the first small positive economic growth in years despite the collapse in the price of the two leading recorded exports, tin and natural gas. Stabilization was possible only through continued suspension of debt payments and tenacious adherence to the goal to eliminate domestic credit expansion even though it entailed freezing public investment and wages.

Social welfare indicators kept worsening--severe malnutrition became widespread and infant and maternal mortality rates rose to levels among the highest in the world. There were large-scale public (especially mining) and private sector employment cuts. An innovative, transitory response is the Emergency Social Fund (ESF), established to generate temporary small-scale employment schemes in social and economic infrastructure projects such as: school and health post construction and repair, street-paving, water supply and sewerage, low-cost housing, and civil works (about 80% of funding), expand health and welfare programs including vocational training, food programs, and vaccination campaigns (10%) and support production such as working capital credit, support to cooperatives and small manufacturers (10%). As of March 1988, over 600 subprojects had been approved, over 400 were being implemented and about 90 were completed. The subprojects are being executed by local governments and NGOs, funded by the ESF. According to project leadership, NGO involvement has been responsible for the careful selection and successful execution of subprojects.

Brazil: Brazil has long delayed implementing long-overdue structural changes to the domestic economy. It has initiated but not sustained several attempts to deal with recurring macroeconomic problems including hyperinflation and a chronically weak balance of payments. In the recessions of the 1980s, per capita GDP has fallen and low income groups

have been the hardest hit. Yet the government has taken few actions to assist either the new or chronic poor. Income distribution is exceptionally unequal. Social indicators such as infant mortality and school attendance are strikingly poor compared to other countries of similar income levels, although social expenditures are extremely high, about 25% of GDP. However, they are mistargeted and mismanaged, subsidizing high-income groups and failing to reach the poor. In recent years, social indicators have been worsening (Macedo undated). To rectify the situation, the Bank has proposed a Social Sector Reform Loan for FY89 which would improve the efficiency of social programs, retarget them away from the rich to the poor and promote private sector provision of social services for those able to afford to pay.

Chile: Chile suffered a severe external shock during 1981-83 following increases in oil prices and interest rates and decreases in copper prices. A serious depression resulted. Average per capita consumption dropped to 1960s levels. In response, a rigorous adjustment program was introduced by the Government in 1982 (followed by IMF supporting operations in 1983 and 1985 and successive Bank SALs in 1985, 1986 and 1987). The poorest suffered further, registering serious declines in their incomes. Open unemployment surged to over 25%. The majority of Chile's poor reside in urban areas as either unemployed or informal sector workers. To assist the unemployed during the adjustment process, the Government targeted to them emergency employment schemes in the formal sector. Despite an aggregate drop in government expenditures, including those on health and education, social expenditures for low-income groups were protected such as nutrition programs for poor children and pregnant and lactating mothers, social security, and low-cost housing. Basic health status was maintained although improvements in the health and other conditions of the extreme poor were postponed for lack of funds. SAL III includes as conditions for second tranche disbursement measures to expand preventive health care especially for the chronically ill, targeted maternal-child nutrition programs and rehabilitation of medical facilities and machinery. Improvements to the social security system are also conditions for disbursement, including better management and expanded and more equitable coverage. The Chilean example proves that the poor can be protected during adjustment through targeted programs.

Costa Rica: In the two decades preceding the oil crisis, Costa Rica enjoyed stability and economic growth. Major social indicators improved significantly. The economy faced a sharp crisis in 1981-82 with decline in GDP growth, rising inflation and external debt. Per capita GNP fell about

18%, unemployment doubled to 10.5%, real wages declined by 40% and payments on foreign debt to commercial lenders were suspended. Investments and imports were almost halved. A new Government in 1982 introduced a stabilization program with IMF support which entailed a sharp devaluation, higher taxes and increased user charges for public utilities. By 1984, internal and external balances were restored: however, by 1985 it became clear that continuing structural and policy problems constrained sustained economic growth. A new adjustment program was launched supported by a Bank SAL and a second IMF Stand-by. Improved international terms of trade spurred an import boom which dampened GDP growth. A second SAL is under preparation.

Costa Rica has made excellent achievements in providing for basic human needs (for example, average life expectancy was 73 years and 93% of the population had access to potable water in 1984). However, the social sectors absorb about 40% of government expenditures, draining fiscal resources. These costs are not sustainable. During the crisis, the Government instituted measures to protect the poor: it charged lower utility rates to slum dwellers; it established credit lines for the urban informal sector; and it maintained nutrition and preventive health programs in the face of increased food prices. Per capita nutrient intake declined but the population remained basically healthy. Housing however remains inadequate and education expenditures are mistargeted to higher levels. A proposed second SAL would target social expenditures to the poor and improve their efficiency, increase agricultural price incentives and improve factor mobility.

Jamaica: The 1960s and early 1970s were prosperous with strong economic growth. Since then the economy declined. Nevertheless, adjustment measures were postponed into the 1980s. The lot of poor Jamaicans worsened. Strong adjustment measures were adopted with IMF and Bank support in the 1980s. Expenditures on social services were cut back and prices of basic foods and unemployment increased. In an attempt to protect the poor and vulnerable the Government introduced some welfare programs. The most ambitious of these is the Food Aid Programme which targets school children, pregnant and lactating mothers, infants, the elderly and the very poor who are at risk of becoming malnourished because of weak purchasing power. However, the program has not achieved its objectives because of constrained resources and because the target groups comprise about half of the Jamaican population. The Government is reviewing the program to enhance its efficiency and has proposed to expand health, education, and employment programs for the poor.

CONCLUSIONS

Since their introduction in the late 1970s until recently, adjustment programs have mainly emphasized the short-term restoration of the balance of payments and financial stability in countries suffering external and fiscal deficits (as have IMF stabilization programs over several decades). Longer-term issues of economic growth and equity were secondary. By the mid-1980s, however, it was evident that many countries with adjustment programs had experienced real declines in incomes and employment to 1960s levels. Social indicators such as infant mortality worsened in some countries undertaking adjustment because of reduced public expenditures on social services.

As a reaction, adjustment programs are today being broadened to include both growth and equity: compensatory programs to help the new poor are becoming common; moreover, governments and donors are concerned that the design of adjustment program ensures that in the short and medium term at least the income and standard of living of the old poor does not deteriorate further. Since adjustment has proved a protracted process for most countries, governments and donors increasingly advocate that adjustment also promotes a long-term improvement in the standard of living of the poor, usually by means of complementary investments. Thus it is becoming popular to propose not only helping the losers in adjustment--the new poor--but also drawing the potentially productive extreme poor into the growth process through increased access to productive assets and employment and through nurturing their human capital.

For the new poor, some recent adjustment programs include compensatory measures such as emergency public works and food-for-work programs to provide temporary employment, and food stamps or other ration schemes to guarantee a minimum nutritional level. Severance pay for retrenched workers is also now becoming a common feature of adjustment programs. These countervailing programs are designed to ensure that the basic needs of the new poor are maintained. They are of temporary duration on the assumption that the beneficiaries will be reabsorbed into sectors spurred into growth by adjustment such as tradeables and private enterprise.

For vulnerable groups and the extreme poor, it is recognized that more public social expenditures are required. Social expenditures at present, even when constituting a substantial portion of GDP as in Brazil,

are mostly mistargeted to reach the better-off (e.g. higher education and curative health care) and fail to benefit the poor. In many countries, this mistargeting has exacerbated already highly regressive income distribution patterns.

Despite constrained resources, the poor could be helped during adjustment in at least two ways:

First, Retargeting. Retargeting available resources to the poor provides enormous potential to improve substantially the equity of social expenditures without the need for additional resources. There are two complementary methods to accomplish this both based on the principle that those who can afford to pay should:

a) Cost Recovery. If at least some of the costs of public social services provided to the better off could be recovered, these resources could fund social services targeted to the poor.

b) Provision of Private Social Services. Provision of social services for the better off could be shifted from the public to the private sectors. More public expenditures would become available to target the poor.

Second, Social Service Administrative Reform. Most social sector bureaucracies in developing countries are extremely inefficient. If these operations were streamlined and improved, considerable savings could be realized and be applied to the poor.

These solutions show that there is technical scope for governments to promote policies and programs to protect and assist the poor without undermining adjustment.

However, there are political constraints which limit the scope and speed of such reforms. Political sensitivity of entrenched middle class beneficiaries of social programs is an obstacle to redirection of expenditures. Yet it need not be an insufferable barrier. Chile and Morocco are doing it, so why cannot other countries? And during a period of worsening macroeconomic indicators, concern for the poor tends to heighten, which in turn favors poverty reduction efforts.

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"The distribution of social spending in Brazil: A case study"

Introduction

Brazil can be used as a case study about how countries care for their poor during the adjustment process. It is important to remember that some kinds of inequity are not due to long-standing practice but merely unfortunate circumstances.

Three questions can be answered through such a study:

- 1) Does Brazil spend enough on social programs-
 - a) in relation to other countries?
 - b) to address problems?
 - c) to provide basic health, education, water, sanitation and old-age benefits?
- 2) Are the expenditures reasonably balanced across sectors, i.e. between education and health or water and sanitation versus housing?
- 3) Is spending distributed equitably across socio-economic groups by income class, region etc.?

Spending Levels

Brazil devotes 18-20% of GDP to social spending, (a combination of federal, state and local spending), an amount comparable to industrialized nations. So yes, Brazil spends enough, despite some government officials' claims that adequate funding is lacking. The problems, therefore, are in resource allocation.

Sectoral Spending Balance

Roughly 40% of all social spending goes toward social security programs; one-fifth of which is devoted to federal, state and local government employees and employees of state owned enterprises. These expenditures could be considered part of the government's wage bill. Education receives the second largest spending allotment followed by housing and urbanization, each of which receives 3% of GDP. The average housing expenditure is less than 1%, thus Brazil overspends on housing. The figure includes a large dedicated social contribution that is indirectly focused on housing through worker support and the former National

Housing Bank. Housing expenditure is Brazil's largest misallocation in comparison with other countries.

These figures demonstrate that a disproportionate share of benefits, such as pensions, are paid to the elderly. Smaller shares are devoted to those age groups served by food and nutrition programs (1.3%) and maternal and child health.

Spending Distribution

One-half of Brazil's children are poor and one-half of all poor are children, yet children comprise only 36% of the total population. The incidence of poverty among children is far higher than among adults or the elderly. The bottom line is that the lowest 19% of the population receives 7% of the benefits, or less than \$15 per month, one fourth of the minimum salary. The lowest 41% receive only 18% of total benefits. The 1% of social spending devoted to food and nutrition is not directed to the lowest quintile or perhaps even to the second lowest quintile. Food programs are urban based while the poorest live in rural areas. Although these numbers are not consistent with the rhetoric of the Nova Republica nor with what Brazilians believe their social programs address, they are not generally disputed.

These figures demonstrate that some age groups do not receive a share of benefits which corresponds to their share of the population at large while other groups, notably those over sixty-five and those twenty to twenty-four (due to university subsidies), receive more than their share.³ There are large discrepancies in education subsidies between primary and university levels. The subsidy for each university student is \$2738/year while the subsidy for primary and secondary students is \$144/year, a ratio of twenty to one per beneficiary. The greater cost of university teaching is indisputable but it is equally undeniable that most university students come from families that earn more than the median annual income. Thus the potential for reallocation of educational resources appears to exist in Brazil. Children from birth to four years old constitute 10-12% of Brazil's population but receive only 5% of all benefits. Conversely, twenty-eight percent of all social security payments are paid to nine percent of the beneficiaries, the fifty-five to sixty-four year old

³ Samuel Preston's paper on U.S. social security programs is the basis for this analysis. Preston says that when benefits from social security and Medicaid/Medicare are combined, only 3% of all recipients remain impoverished. McGreevey suggests that a similar rate might be found in Brazil.

group. Benefits can conceivably exceed payments by as much as 500%.⁴ Benefit distribution is not equitable in Brazil. The aged are heavily favored while the young are penalized.

It is very unlikely that there will be an immediate change in Brazil. The political cost is too great for the government because "the losers in a situation in which benefits are taken away will punish more vigorously than the winners will reward."⁵

DISCUSSION

One of the more salient issues of the discussion period was the question of educational resource reallocation. One participant stated that although the benefit to society is greater when resources are directed toward primary education rather than to higher education, there cannot simply be a reduction of higher education funding. The skills necessary to increase the technological capacity of the nation are taught at higher levels. The speaker called for increased spending, not simply reallocation. McGreevey's study demonstrates that the resources exist yet the performance is poor. Internal efficiency, such as the number of hours professors spend in class, the number of classes they miss and the number of students they teach should be analyzed. There is a great deal of waste in the university system, in part because universities themselves resist efficiency studies.⁶ The panel was asked for examples of countries that had succeeded in increasing the degree to which those able to pay for a university education did so. McGreevey and Zuckerman cited Chile and Jamaica, where the program is under study, as examples.

Tax incidence and its relation to benefit incidence was of interest to one participant who asked if the Bank was promoting tax reform.⁷ Certain expenditures such as education, health and mortgages are tax deductible in Brazil. In 1979, \$1.6 billion was deducted as health expenditure (75% from

⁴ A teacher could conceivably retire at forty-five after working twenty-five years and collect benefits until death, perhaps thirty years.

⁵ McGreevey quotes Barry Ames, in Political Survival: Politicians and Public Policy in Latin America (Berkeley: University of California Press, 1987).

⁶ Although introductory courses in Brazilian universities were usually full and waiting lists for entrance exist, upper-level courses are often given to only a few students since professors are paid based on the number of courses offered, not on the number of students taught.

⁷ See Elka Meldow, Benefit Incidence. Hanover, Massachusetts: Christopher Publishing House, 1980.

people in the upper one-third income group) while in 1984 the figure had fallen to \$640 million; reflecting not greater honesty but an increase in off-the-record transactions. Revenues now lost due to tax evasion and double-pricing systems could be recovered through improved collection methods.

Another issue of interest was the role of the Bank in studying the effects of structural adjustment on poverty. McGreevey replied that the Bank does not make structural adjustment loans to Brazil but is considering sector adjustment loans for trade finance in industry, agrarian and public administration reform, and social sector adjustment loans. Some ministries resist these reallocations which would likely reduce benefits paid to certain constituent groups. The Bank has little influence or leverage in Brazil and can only work with the Brazilians to help conceptualize what government should be doing. Zuckerman added that large countries absorb resources without accepting conditions since they have little incentive to do so. Smaller countries often do not have this luxury.

SESSION FOUR
Popular Organizations and Survival Strategies in Latin America

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"What is not the same about the urban poor: The case of Mexico City"⁸

The research for this essay has been variously supported by the Inter-American Foundation, the World Bank, and the Ford Foundation. I wish to thank all three institutions for their confidence and generosity.

How Aid Donors Think About Urban Poverty

Few changes on the global landscape have been so dramatic or socially far-reaching as Third World urbanization. In 1950, when the largest city in the world was New York, six of the world's ten largest cities were located in Europe and the United States. But since then, Third World cities have been growing approximately three times faster than those in the industrial world.⁹ By the turn of the century (when for the first time in human history half the world's population will be urban), 18 of the world's 21 largest cities will be located in the Third World.¹⁰ At this rate, the Third World will absorb nine-tenths of all global urban growth over the next 30 years.¹¹

As the world's population becomes proportionately more urban--or more precisely, as the urban population becomes proportionately more

⁸ This paper is a draft of a chapter from Strengthening the Poor: What Have We Learned, John Lewis and contributors, Washington, D.C.: Overseas Development Council, 1988. It is reprinted here with the permission of the Overseas Development Council.

⁹ The annual urban growth rate of the Third World is approximately 3.5% per year, Rafael Salas, The State of World Population 1986 (New York: United Nations Fund for Population Activities, 1986), cited in Lester Brown and Jodi Jacobson, "Assessing the Future of Urbanization," State of the World 1987, Lester R. Brown, ed. (New York and London: W.W. Norton for Worldwatch, 1987), p.39. (For urban growth rates of individual countries and regions, see World Development Report 1987, table 33, p. 266 (Washington, D.C.: World Bank, 1987).

¹⁰ Estimates and Projections of Urban, Rural, and City Populations, 1950-2025, United Nations, New York, 1985.

¹¹ Salas, The State of World Population 1986, stated in Brown and Jacobson, p. 39.

Third-World--so too is poverty urbanizing. As fast as Third World cities themselves are growing, squatter settlements, shanty towns, and low-income neighborhoods are growing approximately twice as fast within cities.¹² In the very poorest countries, such as Haiti and Burundi, as many as half of all city dwellers live in absolute poverty; in India, about 40%; in less-poor countries such as Morocco or the Philippines, about 30%.¹³

Curiously, despite the accelerating growth of Third World cities--and the poverty that grows with them--the trends of aid donors have not followed the demographics. As John Lewis points out in the introduction to Strengthening the Poor, the "populist aid doctrine" of the 1970s has steadfastly held to a "pro-rural tilt".¹⁴ Overall, only about 8% of all multilateral and bilateral development assistance is explicitly directed to urban problems.¹⁵ US AID maintains an urban and housing program of about X% of its total budget--roughly \$200-300 million per year worldwide. The World Bank, whose urban poverty lending in recent years has averaged about 3.5% of total lending, re-merged infrastructure, water, and urban departments, signaling its reluctance to continue to treat "urban" as a stand-alone poverty problem.¹⁶ The Inter-American Development Bank only recently formed an urban planning unit--in a sense, just catching up to where AID and the Bank were 15 years ago. And private voluntary organizations and small grant-making agencies, like the Inter-American and African Development Foundations, generally avoid urban projects altogether.¹⁷ Indeed, if dollars from donors define "strengthening the poor," then it is hardly accidental or a matter of

¹² Janice E. Perlman, "Megacities and Innovative Technologies," Cities (May 1987), p. 129.

¹³ UNICEF estimates that in the very poorest countries (which are ranked and classified according to under-5 infant mortality rates), 35% of the urban population lives below the absolute poverty level, contrasted to 65% of the rural population. In slightly less poor countries, the average urban rate is 30%, contrasted to 45% in rural areas. The State of the World's Children 1988, (New York: Oxford University Press for UNICEF, 1988), Table 6, pp. 74-75.

¹⁴ John Lewis, "Overview," Strengthening the Poor.

¹⁵ Perlman, p. 130.

¹⁶ "IBRD and IDA Cumulative Lending Operations by Major Purpose and Region, June 30, 1987," The World Bank Annual Report 1987, p. 158.

¹⁷ The exception, in both cases, is support for small-scale urban microentrepreneurs, which accounts for 12% of the Inter-American Foundation and --% African Development Foundation's total support. For a brief explanation of why the Inter-American Foundation has backed off from its earlier support of self-help housing projects, see "A Snapshot of Decisionmaking at the Inter-American Foundation: A Self-Help Housing Review in Argentina," Grassroots Development, Vol. 9, No. 1 (1985).

editorial bias that explains why 12 of the 13 papers commissioned for this volume focus on rural themes.

There are four nominal reasons--and one much more fundamental reason--why development donors are likely to hold to their pro-rural course in the 1990s.

First, though an increasing proportion of the poor may be urban or urbanizing, a majority of the very poorest people remain rural.¹⁸ Poor though they may be, in most countries the urban poor still seem relatively privileged compared to their rural counterparts.

Second, even if donors are biased toward rural, national development policies are generally biased toward urban. Even where 60-70% of the population may be rural, it is common for Third World countries to allocate about 20-30% of their budgets to rural sectors.¹⁹

Third, the concept of urban poverty alleviation carries with it a built-in paradox: that "solving" the problem makes it worse. Migrants are attracted to opportunity, and making life better in the city attracts more migrants; therefore, most donors would argue, the best way to help both countryside and city is to make life better for the rural poor.²⁰

¹⁸ An excellent discussion of the relative trends in rural versus urban poverty is to be found in "Human Settlements," World Resources 1987, (New York: Basic Books for World Resources Institute and International Institute for Environment and Development, 1987), pp. 25-38.

¹⁹ For Discussions of urban bias in national development projects, see, for example, Michael P. Todaro and Jerry Stilkind, City Bias and Rural Neglect: The Dilemma of Urban Development (New York: The Population Council, 1981), Judith Tendler, Rural Projects Through Urban Eyes: An Interpretation of the World Bank's New Style Integrated Rural Development Projects (Washington, D.C.: World Bank Staff Working Papers, 1982); and Michael Lipton, "Urban Bias and Food Policy in Poor Countries," Food Policy, November 1975 (see Costa Rican case study for example).

²⁰ Governments throughout the Third World have widely experimented with measures to stem cityward migration--closed city policies, dispersion policies, and rural or regional development policies. These measures have generally been most aggressive in centrally planned economies (for example, Cuba). While migration flows have in some cases been at least partially controlled; reviews of the literature generally confirm that these measures have had little overall success in slowing the growth of primate cities. See, for example, Janice Perlman and Bruce Schearer, "Migration and Population Trends and Policies and the Urban Future," UNFPA International Conference on Population and the Urban Future, Barcelona, Spain, May 1986.

Fourth, in the 1980s donors have come to view most of the common prescriptions of the 1970s--particularly prescriptions that the poor themselves generally favor--as problems in their own right. Yesterday's solutions are today cast pejoratively as "subsidies"--for food, housing, education, fuel, and transportation. Such subsidies are almost invariably seen as fiscal black holes that are politically manipulated and disproportionately appropriated by the non-poor.²¹

This fourth reason suggests the fifth, even more basic reason: namely, the best urban ideas from the populist era have not worked very well. Quite honestly, no one who knows the turf well knows what to do, leading to a kind of intellectual agnosticism that weighs heavily against boldness. Today's urban technicians are generally to be found pondering a set of project options that, they believe, range from those that flatly make matters worse, to those that merely don't work very well, to those that work under restricted conditions but cannot realistically be financed or implemented on a wide scale.²²

Take, for example, the case of housing. Since the most buoyant days of the Alliance for Progress, when John Kennedy encountered tens of thousands of people in the streets of Latin American cities, and later, when Robert McNamara was met by millions²³ in the streets of Calcutta, development donors have wanted to help build decent, affordable houses for the poor. Yet in the end, every round of publicly-supported house-building has proved to be "too expensive"--even with genuine innovation in technology, materials, financing, and institutional support.²⁴ Even with

²¹ See for example works by Guy Pfeffermann.

²² I recognize, of course, that many colleagues may strongly disagree with this grim assessment of the state-of-the-art. The conclusion is based on review of documents, past personal experience, and discussions with a wide range of development technicians. The general conclusion, I believe, is reinforced by Per Lejung memo, World Bank Urban Poverty Task Force, and various AID documents. I also recognize that there is currently a great surge of enthusiasm for the "urban informal sector," which is widely viewed as an alternative engine for economic growth. On this matter, I follow Portes and Castells, who find many of these claims ideologically motivated, sociologically naive, and thoroughly divorced from empirical data. That discussion is beyond the scope of the present work, but is taken up in, Annis, Overseas Development Council, 1988. To clarify, my conclusion is not that nothing works, but nothing works well or at the level of the problem. No technological equivalent of the Green Revolution exists, where we may say, "The world is awash in houses."

²³ These millions may be apocryphal. They are millions as told to me in interviews.

²⁴ See Michael Cohen, "The Challenge of Replicability: Towards a New Paradigm for Urban Shelter in Developing Countries," Regional Development Dialogue, Vol. 4, No. 1

self-help, mutual help, sites and services, Progressive slum upgrading, institution building, and wholesaling rather than retailing, the simple truth seems inescapable: if we could assume honesty, bureaucratic efficiency, good use of technology, and community participation, no system of state-sponsored housing seems able to keep pace with--let alone gain ground upon--cities that grow 3 to 5% in size year after year.²⁵ The problem is that in housing in particular, but in urban projects in general, donor resources and existing project instruments so thoroughly underwhelm the needs of cities as to be trivial by all but the kindest or most self-serving of standards. Given this ambiguous state of the art, what are donors left to think about urban poverty alleviation? Where to next? For that matter, what now?

The Policy Content of Urban Poverty Projects: Who Decides?

For most of the past two decades, urban poverty lending has been a two-sided debate between governments and donors. In staging this debate, donors have always believed that the "policy content" of their lending was more important than the actual amounts of dollars transferred. No one disagrees that good projects nested within bad policies are exercises in futility; so in large measure, the contemporary debate now focuses on what precisely constitutes "good policies." How are the needs of the urban poor balanced against the needs of the rural poor, the requirements of growth, the constraints of austerity?

If one could be a fly-on-wall to eavesdrop on this "policy dialogue" between donors and governments, the kinds of urban Poverty questions that one would surely hear debated are: Who receives the benefits of physical infrastructure? Who pays for it? Can cheap urban food be sustained; and if so, at whose expense? How can tax systems be constructed to pay for urban services? How can minimum wages be set that simultaneously protect the poor and slow inflation? Where in metropolitan areas should the Poor be housed? To what extent can open admissions and free tuition be maintained in public universities that serve

(1983); also Learning By Doing (Washington, D.C.: World Bank, 1983); Johannes F. Linn, "Urban Housing: Land, Services, and Shelter," in Cities in the Developing World: Policies for their Equitable and Efficient Growth, (Oxford and New York: Oxford University Press for the World Bank, 1983).

²⁵ The point I wish to emphasize here is not that public institutions do not know how to build houses (they do), but that they do not know how to build houses in a fiscally sustainable manner faster than the poor's growing need for houses.

the poor? Are rent control policies good or bad for the poor? What scale of industrial investment best generates jobs for low-income workers?²⁶

In most respects, these "new" policy questions that are at the center of debate are, I believe, the right ones. The central questions of urban poverty inevitably lead back to a more fundamental set of poverty issues.

Academics and development practitioners, such as the authors of this book, are fond of asking themselves whether they are indeed asking the "right" questions?

In this regard, I believe that the 1990s will be an era of extraordinary change. For the social and political character of the poor, especially the urban poor, is rapidly changing, and as this happens, we may find ourselves spending considerably less time asking whether we know the right questions and shift our attention to a more profound issue: who is asking the questions, and more importantly, who is involved in the deciding?

The key assertion to this essay is that the urban poor are becoming increasingly effective and aggressive interlocutors in their own behalf. A three-way "trialogue" will increasingly challenge the assumption of two-way dialogue. In some respects, the forces that drive that process seem inevitable and irreversible; but in other respects, they can also be supported and guided from within development institutions.

In order to illustrate how and why this is so, I have described below the milieu of Mexico City--which may offer a glimpse into Latin America's (if not necessarily the Third World's) urban future.²⁷

Growth and Popular Organizations in Mexico City

²⁶Two especially useful summaries of urban policy issues are George Tolley and Vinod Thomas, eds., The Economics of Urbanization and Urban Policies in Developing Countries (Washington, D.C.: The World Bank, 1987) and Johannes F. Linn, op. cit.

²⁷ It goes without saying that what holds true for Mexico City need not necessarily hold true for Rio de Janeiro--much less for the rest of the world. Other authors will certainly draw different conclusions. However, I do believe that the social-political processes described here roughly correlate with urbanization--not with the specifics of the Mexican case--and what we see in Mexico can be expected, with variation, to repeat itself elsewhere.

By the turn of the century, roughly three-fourths of more than half a billion Latin Americans will live in cities.²⁸ That means that Latin America will be as urbanized as North America, Europe, East Asia, or the Soviet Union.²⁹ The world's two largest megacities--by a considerable margin--will be Mexico City (with a projected 26.3 million population by the year 2000) and São Paulo (with a projected 24.0 million).³⁰

In Mexico City, which has been incorporating a half-million new people a year since the mid 1970s,³¹ the pace and scale of urbanization defies comprehension. There are newly sprouted areas within Mexico City that, by themselves, are larger than all but the very largest North American cities--for example, the city-within-a-city, Netzahualcoytl. In the 1950s, "Netza" was an inhospitable, dried up lake bed, with a population of a few thousand squatters. Today it is a teeming urban zone of nearly 3 million inhabitants, only slightly less populous than Los Angeles or Chicago.³²

How, one might well ask, can an unplanned urban agglomeration such as Netza mushroom from virtual zero to nearly 3 million in about the time that a single individual grows to adulthood? What social, physical, economic, and political processes turns so much rocky lake bed into so many houses, roads, postal routes, jobs, school districts, and family living spaces?

²⁸ Ricardo Jordan, "Population and the Planning of Large Cities in Latin America," Paper presented at the International Conference on Population and the Urban Future, sponsored by UNFPA, Barcelona, Spain, May 19-22, 1986; cited in Brown and Jacobson, *op. cit.*

²⁹ By the turn of the century Latin American is projected to be 77% urban. North America will be 78% urban; Europe, 79%; East Asia, 79%; and the Soviet Union 74%. In contrast, China will be 40% urban; Africa, 42%; and South Asia, 35%. Carl Haub, Population Reference Bureau, 1986 World Population Data Sheet, cited in Brown and Jacobson, p. 40.

³⁰ Estimates and Projections of Urban, Rural, and City Populations, 1950-2025, United Nations, New York, 1985.

³¹ Johannes F. Linn, *op. cit.* See also, Phillip M. Hauser and Robert W. Gardner, "Urban Future: Trends and Prospects." in Population and the Urban Future, Report on an international conference, Rome, Italy, September 1-4, 1980. UNFPA, 1980.

³² That means that if Netza were in the U.S., it would be about the fourth largest city in the country. It's nearly the size of Chicago or Los Angeles and more than twice the size of Detroit or Dallas.

It has now become commonplace to respond that this vast ad hoc urbanization is carried out "by the people."³³ In Mexico, it is certainly incorrect to say that this urbanization is carried out "by the state" (much less by the formal construction industry); but on the other hand, the by-the-people argument can easily be overstated to underplay the state's direct participation in the process.

First, the vast "self-built" city does not refer to the sea of carton shacks and sheet metal hovels like those of Lima, Guayaquil, or Lagos.³⁴ Neither does it suggest highly self-sufficient NGO-led efforts at mutual help in which neighborhood construction crews have cooperatively built each others' homes after work and on weekends.

The actual situation is more complicated. Over the past 20 years, most poor Mexico City neighborhoods have been built by individual homeowners who purchased (extralegally) rather than squatted (illegally) upon property at the edge of the central city.³⁵ These families then toil year by year to upgrade the value and quality of their living space. Through legalization of their property titles, steady inputs of family labor, occasional cooperative labor, and gradual purchase of materials and services from informal and commercial sector builders, services and materials from formal sector, they eventually create liveable communities.³⁶ When looking down upon a typical poor neighborhood from, say, the rim of the valley surrounding the megacity, one sees tens of thousands of iron reinforcement rods sticking out of concrete posts. It is as

³³ The by-the-people argument is enunciated most powerfully in J. F. Turner's two well-known books, Freedom to Build (with Robert Fichter, Macmillan, 1972) and Housing By People (Marion Boyars, 1976) and the many writers who have expanded upon his fundamental insights. See, for example, John Friedman, "The Right to the City" in Development Dialogue Vol. 1 (Uppsala, Sweden: The Dag Hammarskjold Centre, 1987).

³⁴ In 1985-86, Mexico City gained considerable international press notoriety for the large number of people living in makeshift burrows in a hillside garbage dump. The earthquake of 1985 also, literally, blew the lid of abysmal housing conditions--for example, the *azoteros* (maids and service sector employees renting space from the tenants on the roofs of government-owned Tlateloco housing project); and scores of families who were revealed to be squatting in abandoned warehouses. Nevertheless, in fairness such conditions are not the norm in Mexico City. The sea of tin and tarpaper shacks of Lima, LaPaz, Guayaquil, or Guatemala City are, for the most part, the exception rather than the rule in Mexico City.

³⁵ I refer here mainly to post 1950s growth on the first and second *contorno* of the city. The housing stock for central city residents consists mostly of rented *vecinidades* built between the turn of the century and World War II.

³⁶ There are, of course, many variants to this "typical" construction process.

if each finished surface is also unfinished--like a child's *Leggos*, each completed step pointing out the next step to be taken.

No family can provide everything that goes along with a house. As families manage household construction, neighborhood groups form, reform, hybridize, and affiliate with non-neighborhood groups in order to reach out to the public sector for water, sewerage, electricity, garbage removal, pavement, schools, teachers, health costs, mail service, phones, buses, parks, municipal markets, and police protection.

In Mexico, this process not only encourages--but demands--organization. What is needed is a years-long effort in which individuals within constantly shifting alliances make contacts, learn the ropes, ask, barter, and demand services from various extensions of the public sector. For its part, the state's ability to grant or deny these requests in exchange for loyalty is one cornerstone of the PRI's 60-years of political control.³⁷

The hundreds of millions of individual actions, collective actions, and transactions with the state add up to create urban fabric. One result is the creation of new neighborhoods, and these inevitably merge together to make up new zones of the *Leggo*-like city-under-construction. But to see just the physical result would be to seriously misread the essence of the process; for, as described below, there is also a newly created social, political, and cultural fabric that is no less unprecedented than the massive sprouting of neighborhoods.

The Urban Popular Movement and the Politics of Housing

Corresponding to the physical "massification"³⁸ of the megacity, an equally unprecedented non-physical process has taken place. Over the past two decades, an intricate web of organizations, activists, and neighborhood institutions has evolved that corresponds to the newly evolved physical webs. This social web is thick, center-less, and has no simple point of origin. Its intertwined strands wind back not just to the

³⁷ Alan Gilbert and Peter Ward, Housing, the State and the Poor: Policy and Practice in Three Latin American Cities (Cambridge: Cambridge University Press, 1985); and Gilbert and Ward, "Community Participation in Upgrading Irregular Settlements: The Community Response," World Development, Vol. 12, No. 9 (September 1984), pp. 913-922.

³⁸ The English translation "massification" is borrowed here from the Mexican journalist/urbanist, Angel Mercado, who has articulately explored the social-cultural dimensions of *massification*. See, for example, "Las Masas, Protagonistas del Futuro," La Jornada (April 10, 1985), p. 15.

neighborhoods, but to opposition political parties, the PRI, the public sector, the Catholic Church, the universities, foundations, charities, and foreign private voluntary organizations.

The descriptive term used in Mexico--and elsewhere in urbanizing Latin American cities,³⁹--to describe this phenomenon is the "urban popular movement" (*movimiento urbano popular*). The term is generally used generically--as in "civil rights movement" or "labor movement." It is a movement that has no single leader, no unified ideology, and no agreed-upon plan for political action⁴⁰ (though many individuals and organizations energetically seek to provide that).

The Mexican urban popular movement is generally described as having its geographic roots in the industrial and border cities of the north.⁴¹ Its political roots are in the apertura democrática, in which the administration of Luís Echeverría (1970-76) sought to relegitimize the PRI after the violent repression of the student movement in 1968. In particular, Echeverría recognized the volatility of the asentamientos. His "populist" administration devoted considerable political and technical resources to the rapidly growing population of urban poor, creating government agencies to increase the housing stock and to legalize property titles.⁴²

³⁹ For a discussion of urban popular movements in Brazil and Chile see Scott Mainwaring, "Urban Popular Movements, Identity, and Democratization in Brazil," Comparative Political Studies, Vol. 20, No. 2 (July 1987), pp. 131-159; Alexandrina Sobreira de Moura, "Brasília Teimose: The Organization of Low-income Settlement in Recife, Brazil," Development Dialogue, Vol. 1, (1987), pp. 129-152; Renato R. Boschi, "Social Movements and New Political Order in Brazil," in State and Society in Brazil: Continuity and Change, edited by John D. Wirth, Edson de Oliveira Nunes and Thomas E. Bogenschield (Boulder: Westview Press, 1987), pp. 179-212; and Fernando Kusentzoff, "Urban and Housing Policies under Chile's Military Dictatorship 1973-1985," Latin American Perspectives Vol. 14, No. 2 (Spring 1987), pp. 157-186.

⁴⁰ In Mexico, the term "MUP" is the generic term. "CONAMUP" (*Confederación de los Movimientos Urbanos Populares*) refers to a formalized membership organization.

⁴¹ The Monterrey "*Tierra y Libertad*" land invasions of the early to mid 1970. See Manuel Castells The City and the Grassroots (Berkeley and Los Angeles: University of California Press, 1983), p. 197; and Pedro Moctezuma, "Apuntes sobre la Política Urbana y el Movimiento Popular en México," Sociológica Vol. 2, No. 4 (Summer 1987), pp. 133-142.

⁴² FIDEURBE and CORETT. In addition, a key event was the passage of the "*Ley General de Asentamientos Humanos*" in 1976, which established many of the groundrules which allowed extralegal settlements to be converted into legal, state-regulated settlements. For an overview of the organizational responses to these actions by the state, see Moctezuma, p. 137.

Throughout the 1970s, many student and leftist activists also turned their energies to organizing the urban poor.⁴³ As the enrollment of the National University (UNAM) shot up in the late 1960s and 1970s, an increasing proportion of students came from the poor and urban middle class. They had family roots in the barrios, technical skills, political commitment, and practical knowledge.⁴⁴ Meanwhile, labor bosses generally controlled the new state-generated housing and local PRI leaders manipulated the legalization of land titling and provision of utilities.⁴⁵ So an intensely bitter competition developed between the state and party on the one hand, and the students and independent political parties on the other--with neighborhood people shrewdly playing all options while constantly complaining about the sell-outs and false promises of the various "semicaudillistas" who represented them.

As had his predecessor, President José Lopez Portillo (1976-82) tried to reassert control over the increasingly forceful urban popular movement. He created his own plethora of government-sponsored barrio-level community organizations; centralized the diverse array of existing urban agencies; inaugurated new urban planning instruments;⁴⁶ and in 1980, created FONHAPO, a low-income housing authority that was financed primarily by the World Bank.

FONHAPO represented a curious blending of the government's standard approach to housing (i.e., to provide low-cost, highly subsidized finished units to those who knew how to ask), the World Bank's ideas on

⁴³ Javier Farrera, Efren Rodríguez and Gloria Tello, "El Movimiento Urbano Popular en el Valle de México," Cuadernos de Dinámica Habitacional, Vol. 4/82 (Mexico City: Centro Operacional de Vivienda y Poblamiento, A.C. (COPEVI), 1982.), pp. 27-28; and Juan Manuel Ramírez Saiz, "Asentamientos Populares y Movilización Social," El Día Suplemento Especial, (June 1987), p. 22.

⁴⁴ Traditionally, an overwhelming proportion of Mexican intellectuals and political leaders have lived in Mexico City and have come from the upper classes (see Roderic A. Camp, Intellectuals and the State in Twentieth-Century Mexico, Austin: University of Texas Press, 1985), especial pp. 73-98. However, with the massification of UNAM in the 1970s, a much wider swath of students from working class backgrounds emerged in positions of intellectual and political leadership (my conclusion from the vantage point of the 1980s, not Camp's). A very large number "paid their dues" through on-the-ground organizational work among the vast poor and working class communities that fed the public university system.

⁴⁵ Farrera, et. al., p. 55.

⁴⁶ The ambitious *Plan de Desarrollo Urbano* in 1980.

progressive slum upgrading,⁴⁷ and the know-how of key activists from the Mexican urban NGO community⁴⁸ on how to provide low-cost housing.

In essence, FONHAPO created and then enlarged a second "window" within the public housing programs of Mexico. The established window was largely allocated to state and municipal employees, labor organizations, and politically important subgroups.⁴⁹ The new "social sector" window opened credit to barrio associations, cooperatives, and community groups.⁵⁰

Looked at from the community point of view, the differences between the public and social sector approaches were night and day. Practically, FONHAPO transferred considerable power to local groups by allowing them to solicit their own credit, participate in design, select their own technical assistance, and contract directly for construction services (thus circumventing a major source of graft and shoddy construction).

FONHAPO was almost immediately swamped with requests for local projects, ensnared in Partisan politics, besieged by the old guard, tangled by bureaucracy, confronted with technical limitations, and frustrated by community organizations that were more adept at political maneuvering than actually building houses. One would not wish to overstate the degree to which FONHAPO actually "reformed" the public sector's approach to low-cost housing.⁵¹ Nevertheless, at a minimum it created a "new model" for

⁴⁷ Cohen, Learning by Doing (World Bank, 1983). Also, Bank project documents related to FONHAPO.

⁴⁸ Most notably, FONHAPO's current director, Enrique Ortiz, who served a twenty year apprenticeship in the Christian Left and who co-founded and directed CENVI, the best-known Mexican housing NGO.

⁴⁹ FONVI, INFONOVIT, AURIS, etc.

⁵⁰ FONHAPO does not build housing, but is a financial mechanism that lends for construction. FONHAPO is essentially a public trust fund (a *fideicomisio*), administered by the state-owned Banobras and operating within SEDUE, the Secretariat of Urban Development and Ecology. It represents a relatively small percentage of total public investment in housing (only about 10% in 1986, according to one government official I interviewed). As recently as 1981-82, over 90% of loans went to public sector entities to finance finished housing. By 1985, lending to the "social sectors" accounted for 67% of FONHAPO's portfolio. Adjusting for size of loans, roughly half of all FONHAPO loans are now going to public sector entities, half are going to nongovernmental community associations and cooperatives, and a very small segment to the traditional "private sector."

⁵¹ One public official who I interviewed in 1985 estimated that FONHAPO provides, at most, about 10% of public sector financing for house construction and upgrading.

community-state relations, and deepened the incentives for local people to become better organized.

Frequently, groups that were unsuccessful at obtaining concrete goals such as FONHAPO loans quickly disappeared. But perhaps more often, the "social energy"⁵² of failed efforts was "transformed and mutated"⁵³ into new organizations and larger collective actions. By the early 1980s, federations of urban popular organizations became increasingly effective in taking on larger city-wide issues--for example, organized resistance to forced relocations due to road construction or unified opposition to cutbacks in food, transportation, and education subsidies.⁵⁴ In 1981, the generic MUP (or rather, a part of it), formalized as CONAMUP, a "confederation" of urban organizations that, in itself, became one of several *coordinadoras* that make up the Mexican independent (i.e., non-PRI) left.⁵⁵

The Earthquake and its Organizational Aftermath

On September 19 and 20, 1985, two fierce earthquakes struck directly into the heavily populated central zone of Mexico City.⁵⁶ Government figures put the death toll at 5,000. About 40,000 people were injured and 350,000 people were made homeless.⁵⁷

The public visibility and political force of the urban popular movement was frequently said to be waning in the mid-1980s; but by all accounts, it came alive after the earthquake.⁵⁸ Within a day or two,

⁵² I use here a concept that is eloquently developed by Albert Hirschman in Getting Ahead Collectively: Grassroots Experiences from Latin America (Pergamon Press, 1984), and has more recently been developed by Norman Uphoff.

⁵³ See Hirschman, "The Principles of Conservation and Mutation of Social Energy," *op.cit.*, Chapter 4.

⁵⁴ Barry Carr, "Introduction," The Mexican Left, the Popular Movements and the Politics of Austerity, Monograph Series 18, Barry Carr and Richard Anzaldúa Montoya, eds. (San Diego: Center for U.S.-Mexican Studies, University of California, 1986), pp. 1-18.

⁵⁵ For accounts of the history of CONAMUP, see Ramírez *et. al.*, Mercado, Moctezuma, Hernández, and Carr.

⁵⁶ Approximately two million people--living in 300,000 housing units--reside in the *colonias* affected by the earthquake.

⁵⁷ However, nongovernment sources say that the dead and injured probably total at least two to three times these official estimates. Church sources estimate that 8,880 (multiple) housing units were destroyed or damaged.

⁵⁸ See Alejandra Massolo, "Que el gobierno entienda, lo primero es vivienda," Sociología, (April-June 1986), pp. 195-238.

organizations throughout the affected areas mobilized to prevent landlords and government officials from using the disaster to evict low-income tenants. Refusing government attempts to disperse them to relocation sites,⁵⁹ they camped out by their damaged or destroyed homes, and demanded that the government provide adequate temporary shelters that did not require separation from neighborhoods.

With astonishing speed and political acumen, a vast coalition of *damnificados* (earthquake victims) united to bring pressure to bear.⁶⁰ As a direct result, on October 11, 1985, the first of several presidential decrees were issued that lead to the expropriation of over 4,000 damaged lots in 70 central city neighborhoods. Reconstruction funds were allocated by the World Bank--in large measure, through institutional links created by FONHAPO--to finance a program known as *Renovación Habitacional Popular*.

The Coordinadora Unica de Damnificados (CUD) unified scores of organizations. By refusing to bargain separately, by legal maneuvering, and with deft manipulation of the media, the organized earthquake victims were successful in wresting innumerable concessions from the government; and then maintained unrelenting pressure to force compliance with what was promised. In May 1986, an extraordinary event occurred: the signing of a *Concertación Democrática*--a kind of "social pact" in which the president of Mexico and the heads of virtually all relevant government agencies formally agreed to a set of reconstruction ground rules laid out by CUD, the barrio groups, foreign funders, university groups, and local housing NGOs.⁶¹ This agreement became the essential blueprint that was actually carried out by the World Bank-financed

⁵⁹ Government planners generally favor de-concentration of the central zone of Mexico City. In general, this means moving the poor to more peripheral areas and using high-value, central city real estate for commercial development or centralized functions. The poor vigorously oppose these efforts, of course. For this reason, the most pressing policy question to be immediately decided in the aftermath of the earthquake was whether the government would use the occasion to finally "rationalize" the city.

⁶⁰ For description and analysis of the *Coordinadora Unica de Damnificados* (CUD), see Massolo.

⁶¹ Virtually all elements of the urban popular movement the exception of the strident left--signed and participated in the *concertación*. The *concertación* was reproduced widely in all newspapers, discussed at length by the electronic media, and reproduced in its entirety as a wall poster that appeared everywhere in the affected areas of the city.

reconstruction program.⁶² Whenever the government dragged its feet, pressure was applied. In May 1986, for example, CUD announced that tens of thousands of still-homeless earthquake victims would link hands around Aztec stadium during the internationally televised World Cup Soccer Championship. This was called off at the last minute as a crash construction program begun in April began to show visible results.

In light of actual construction and repair of about 50,000 units⁶³--more or less on time and approximately within budget--the Mexican government, the Bank, and the urban popular movement have each proudly proclaimed "their" success in the reconstruction effort. Whichever combination of versions and credits one chooses to accept, it is undeniable that when compared to other natural disasters, Mexico City managed to build a remarkable number of reasonably low-units that were not a simple giveaway⁶⁴ and did not ride roughshod over the pre-existing character of the city.

Yet while government is now pleased to discuss the success of its reconstruction program and even more interested in electing a new president, the barrio associations are far from satisfied. They angrily point out that the government's housing program has touched only the tip of the "*damnificado* problem." From their point of view, the reconstruction program, at best, has simply brought the low-cost housing effort back to the starting line. What about the situation before the earthquake? What

⁶² Key provisions of the *concertación* are: benefitting families will receive their house and lots for debts not to exceed 2.8 million pesos (about U.S \$4,700 at the then prevailing exchange rate), houses will be a standard 40 square meters (from about ten alternate floor plans), mortgages will be paid in a maximum of 8.5 years in monthly installments not to exceed the equivalent of 30% of the legal monthly minimum wage (that is, an annual interest rate of about 18%). (I am well aware that the rules, who gets credit for them, and the degree of government adherence is controversial. The government claims greatly underplay the degree to which it was "forced to do anything"; the World Bank views the program as an extension of its own highly skilled staff and considerable experience in disaster reconstruction; NGOs and CUD generally give the government credit only for responding to pressure.)

⁶³ The World Bank reports 48,800 in "Mexico City: A Remarkable Recovery," The Urban Edge, Vol. 11, No. 8 (Washington, D.C.: The World Bank, October 1987).

⁶⁴ Houses built under the reconstruction program generally followed the pre-existing *vecinidad* model and provided families with about forty square meters. The government and World Bank cite construction costs of \$4,000 per unit, with the expectation of 50% eventual cost recovery ("Mexico City" *op. cit.*). However, some PVOs charge that the government has misrepresented its actual costs and absorbed subsidies in order to drive NGO competition out of the reconstruction process. One knowledgeable estimate is that the government's actual cost could be no less than about \$6,500 per unit.

about legal protection for renters facing evictions? What about enforcement of housing codes? What about expropriating abandoned property and non-taxpaying properties for building sites?⁶⁵ What about new credit to renters and property owners willing to renovate rental units? What about an agency-by-agency review of all government housing to see who is building what for whom and at what cost? What about rewriting of building codes, property tax laws, and regulations governing landlord-tenant-state relationships? What about the creation of new "territorial reserves" on the periphery of the city upon which to build new low-cost housing?

Not surprising, CUD has declined as a political force as an increasing numbers of earthquake victims have been rehoused. But at the same time, a new configuration of associations⁶⁶ has reformed and is aggressively pressing the post-earthquake agenda.

The "leader" of the post-earthquake movement is Super-Barrio, a Robin-Hood-like "*lucha libre*" wrestler whose true identity is unknown (and unimportant). Dressed in his yellow tights, red cape, and SB-emblazoned superhero wrestler's mask, Super Barrio seems to appear everywhere at once ("Where the people are struggling, I am there...Where there is injustice. . . .etc... etc.").

Super Barrio's sworn adversary is the bureaucracy, the greedy landlord, the political boss, and the state. He leads street protests of tens of thousands of people; and because he loses his superstrength when cut off from the sight of the people, he forces the bureaucracy to negotiate on-

⁶⁵ Because of strict rent control that has been applied since the end of World War II, urban properties that house low income tenants cannot be rented out and well-maintained at a profit to nonresident property owners. On the other hand, the appreciation of real estate makes central zone properties extremely valuable. Landlords often discontinue maintenance of their properties in order to force out their tenants. They also discontinue payment of property tax or pay out-of-date assessments. The barrio associations argue that such non-taxpaying, semi-abandoned, unsanitary properties in the central city that are being held for speculative purposes are not in the "social interest" and therefore should be expropriated by the state in order to provide building sites for the second phase of the National Reconstruction Program.

⁶⁶ The most forceful element of within MUP is now the *Asemblea de Barrios*, a confederation that draws upon the *damnificado* movement, the poor living in nonearthquake central zones, and those in the barrio associations of outlying zones.

the-street (in front of television cameras and reporters) and steadfastly refuses to negotiate in more dignified closed-door sessions.⁶⁷

The Mexican press, naturally, loves Super-Barrio and avidly follows his every move. In August, for example, when Super-Barrio announced he would wrestle his arch-enemy Augustino Creel⁶⁸ in front of the National Cathedral, the government responded angrily on the basis of the unseemly location. The government's willingness to allow the match (and where it would be held) became an issue of negotiation and the subject of innumerable political lampoons. However, after agreement was finally reached to hold the match behind the Cathedral, the ring was stolen in the wee hours before the match--prompting taunts, accusations of fraud, government theft, and new waves of protest....

By creating a media hero who symbolizes the *lucha* of the poor and is squared off against the government, the barrio associations have managed to create considerable excitement and a "cause" that partially substitutes for the momentum lost after the earthquake period. In some respects, the good humored Super-Barrio is in the Yippie tradition of the American protest movement of the 1960s. But he is also equally a highly confrontational, direct-action figure in the most aggressive Saúl Alinsky tradition: he breaks the established rules of negotiation (and gets farther as a result), cleverly uses the media, creatively applies public anger and humor, and generally refuses (with 10,000 or so observers behind him) to take no for an answer and go away.

Because of his capacity to embarrass the government, Super-Barrio negotiates and commands reluctant attention at the highest levels. The barrio organizations have forced concessions and put on the table an enormous range of sensitive issues that are dead center at the heart of the future urban policy debate.

Mexico City as a Glimpse into the Future

⁶⁷ To the popular movement, the "closed door" is associated with sell-outs, bribes, offers of jobs, and compromise. By insisting that government officials negotiate awkwardly on the streets--a symbol in wrestler's costume and in front of television cameras--the movement has devised a powerful weapon to counter what it considers its greatest weakness: vulnerability to "cooptation" by the government.

⁶⁸ The wrestling opponent Augustino Creel is a takeoff on Augustina Creel, a well-known, tight fisted, villainous landlady who appears on a popular daytime soap opera.

To return now to the question that this essay asks, "What is not the same about the urban poor?" And more specifically, "Are there new ways for donors to think about urban poverty?"

One can certainly argue that Super Barrio (who at this writing is energetically running for President of Mexico) has done more for the interests of the Mexican urban poor than have many roomfuls of World Bankers with the best of poverty-oriented sensibilities.⁶⁹ Yet even if this is so, the case of Mexico City need not necessarily preview the future of other Latin America cities--much less the future of non-Latin American cities or of the rural poor.

Still, I believe that there are important lessons to be learned by closely observing the trend lines of Mexico City. Development donors are looking for new ways to renew poverty lending. Without exception, they are interested in exploring what nongovernmental organizations can, should, and cannot do. Moreover, they are interested in projects that have poverty-oriented policy content. Certainly social movements that rise in cities are nothing new on the Latin American landscape. But on the other hand, the tendency to wearily say "La plus c'est la meme chose" may cause us to overlook something that is genuinely new: the scale of mobilization among the urban poor, the magnitude of social energy that it has captured, and the certainty that the poor will increasingly be negotiating in their own behalf.

⁶⁹ Although one can and should argue that Super Barrio's presence, for better or worse, also has at least something to do with past roomfuls of World Bankers (and others) with poverty-oriented sensibilities.

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"Social groups and the Poor"

There are groups in the United States which support the demands made by Latin American popular movements. These American groups endorse alternative analysis and responses to the debt crisis, particularly the underside of the debt. Church, solidarity, and development-interested groups share a particular concern about justice and peace and a more human exchange between the First World and the Third World. They are sensitive to what those in Latin America say about the debt crisis and its potential solutions.

The groups share three characteristics. First, they view the debt crisis as a component of the broader development question. The mere existence of such a crisis is indicative of the problems with development. Second, the groups are primarily concerned with the poor. They focus not on the financial systems and their survivability but on the poor and their survivability. Third, the groups believe that the South is the locus of change. Although Northern groups may provide support, the leadership for change must come from Latin America.

Who are these groups? Interfaith Action for Economic Justice is a Washington based coalition of about twenty-five church related groups that have a working task force on the issue of debt with a particular interest in Third World perspectives. In April 1988 Interfaith Action prepared testimony for the U.S. Senate Finance Committee's Subcommittee on International Debt. They also invited a Maryknoll missionary to present graphic testimony on the debt crisis and its impact on the poor.⁷⁰

A second, more broadly based group is called the Debt Crisis Network. This group, comprised of church and solidarity related groups with links to Europe, focuses on the issue of debt within the larger context of development. The network tries to offer alternative analysis on the crisis and to propose alternative responses to the crisis.

⁷⁰ Hearing before the Subcommittee on International Debt of the Committee on Finance, United States Senate, 100th Congress, March 9, 1987, Sen. Bill Bradley, Chairman.

A third type is the individual group with an interest in the poor such as the Roman Catholic Church. The Vatican has issued statements on the debt and the Pope specifically mentioned the crisis in a recent encyclical. The United States Catholic Bishops addressed the debt crisis in their 1987 statement on the economy and recommended a suitable response.⁷¹

The fourth type of group is the Private Voluntary Organization (PVO) or Non-governmental Organization (NGO), many of which focus on the debt and its impact on the poor. These groups offer two different types of responses. One is advocacy regarding debt policy and the other is cooperation in order to help alleviate the consequences of the debt crisis. Advocacy includes pushing for debt rescheduling and changes in the operating policies of the World Bank and the International Monetary Fund. The NGOs, based on reports offered by organizations such as UNICEF, propose that a more human face be applied to structural adjustment. This is a common, reformist approach to the crisis.

There are a growing number of PVOs and NGOs that take an even wider look at the debt crisis and offer a response that does not simply advocate reforming the system to alleviate some of the damages. They offer a fundamental challenge to the repayment of the debt rather than merely supporting popular movements' struggles against the consequences of the debt. Policy changes that would alleviate some of the more dire consequences are no longer sufficient. These groups work within a North American setting to convince banks and policy-makers that the debt will not be repaid.

There are three dimensions within the question of whether the debt will be paid, or more specifically, why it will not be repaid. The dimensions are: economic, the debt cannot be paid; moral, the debt should not be paid; and political, the debt will not be paid.

Economic reasoning states that current economic structures, even with bold debt rescheduling plans, cannot possibly support repayment. Structural adjustment programs are designed to restructure the economy to generate foreign capital to repay the debt not simply to promote growth.

⁷¹ See Pope John-Paul II Sollicitudo Rei Socialis (Encyclical Letter on Social Concerns) Origins 17(38), March 3, 1988 and National Conference of Catholic Bishops, Economic Justice for All, Pastoral Letter on Catholic Social Teaching and the U.S. Economy. U.S. Catholic Conference, Washington, D.C. 1986.

The collapse of commodity prices indicates that the resources necessary to repay the debt are simply not going to materialize.

The moral aspect considers the legitimacy of the debt. For the most part, the debt was negotiated by military dictators for their particular private uses. Capital flight was a common consequence of the borrowing while the plight of the poor was rarely of concern. The newly democratic regimes saddled with this illegitimately acquired debt ask why they should be ethically bound to pay the debt negotiated by "leaders" without the right to negotiate for the nation. The legitimacy of that portion of the debt accumulated due to rising interest rates also is of concern. Interest rates were negotiated at floating rates of about 6-7% but rose to as high as 20-22% as the US attempted to finance its own deficit and fund increased military spending. Furthermore, the international financial system can be preserved only by making the poor suffer so that the countries can at least make interest payments. There is no ethical justification why those who suffer most from the current situation should suffer even more to preserve the system which has created the crisis.

The economic and moral arguments can be combined to form a very strong political argument that the debt will not be repaid. Brazilian Cardinal Arnes is one of many prominent figures who argue that although the original debt has been repaid, the countries are saddled with interest payments. Many argue that the nations should take the consequences of not paying the debt since paying the debt has unsavory consequences of its own.

The groups in the U.S. that are sympathetic to the plight of the poor in Latin America must go beyond the current policy of working for better terms of restructuring within the system. Instead, they need to tell the lenders that the Third World is not going to repay the debt.

Lending agencies such as AID, the World Bank and the IMF, as well as commercial banks, have encouraged the PVOs and church groups to participate in the debt process by entering into the debt relief projects such as debt for environment, debt for education and debt for charity. In this way interested groups could help relieve suffering. This option can be followed, according to those who endorse it, regardless of the group's position regarding debt repayment. UNICEF, Catholic Relief Services, the Jesuits and the Maryknoll order have all been invited to participate in these relief programs.

Becoming involved in the short-term debt swaps to help people who are suffering is a trap. Buying in, so to speak, is selling out. Such involvement acknowledges and supports, and thereby legitimizes the debt. To become involved is to be co-opted into the system that has caused the problems.

The solution to the debt crisis will come from the popular movements. Concerned groups in the North should be sensitive to the voices coming from Latin America which offer a very different analysis of the debt and its legitimacy. These Latin American voices suggest the strategies to avoid and those to pursue.

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"The plight of women"

The transformation of women's collective action and the potential transformation of women into a very powerful political force has been a by-product of the debt crisis. Women are required to find new ways to cope with the impact of structural adjustment policies. A review of their strategies leads to some general policy recommendations to ease the short-term pain of adjustment.⁷²

Analysis of the impact of structural adjustment policies on women is difficult because there is little empirical analysis of the particular affect of these policies. This is due, in a large part, to the lack of gender desegregated data. However if the different ways in which men and women allocate labor, earn and receive income, and consume or utilize goods, resources, and income are considered, certain inferences can be drawn. Two of these in particular are worthy of consideration.

First, women are responsible for unpaid household work, child bearing and child care. These place constraints on their employment opportunities and access to resources. Secondly, women's incomes are, as a rule, lower than men's while a higher proportion of their income is derived from transfers that are at risk when economic conditions deteriorate. Evidence also suggests that when male incomes rise, an increase in transfer of payments to women does not necessarily follow. Research indicates that men spend newly earned income on consumer goods whereas women spend it on the family and household.

Structural adjustment policies have had a very negative effect on women. The programs most likely to be cut are public sector agencies which address women's concerns--education, health and welfare. These programs employ the greatest numbers of women and thus their reduction or elimination has a disproportionate impact on women. Women comprise

⁷² This paper is based on research conducted at the International Center for Research on Women as well as the author's own research in Lima in January 1987. See also Marianne Schmink, Learning about Women and Urban Services in Latin America and the Caribbean, New York: The Council, 1986, and Violeta Sara-Lafosse, Comedores Comunales, Lima: Grupo de Trabajo, Servicios Urbanos y Mujeres de Bajos Ingresos, 1984.

80-90% of the workers in export processing industries particularly in the garment, food processing, and electronics industries. As the numbers of these industries grow and general unemployment rises, employers may prefer to hire single women without children or male workers who are willing to accept lower wages. There is some evidence to suggest that this has already begun to happen in both Mexico and the Dominican Republic because of the political pressures to generate employment for men. In the early 1980s, eighty per-cent of maquiladora jobs were held by women whereas today the figure is about sixty per-cent.

A devaluation tends to decrease production in the service sector. Over 50% of the economically active women in Brazil, Chile, Colombia and Peru are engaged in service sector activities; as service sector employment has declined, so have women's employment levels and their wages. As opportunities in the formal sector shrink, women turn increasingly to the informal sector. In Peru, excluding domestics, women make up 40% of informal sector labor force and 61% of the self-employed. Evidence suggests that once a woman moves to the informal sector it is very difficult to return to formal sector employment.

Structural adjustment policies have had a negative impact on the health, education and well being of women and their children. As food prices rise, pregnant and nursing women, already at risk, decrease their food intake and the quality of their diet. Thus their health and the health of their children suffer. Cut backs in health services further limit women's access to health care, especially as fees and the cost of medicine rise. In fact, opportunities for women to obtain direct access to government subsidized health services are fewer than men's because of the link between social security health programs and employment in the formal sector. Cut backs in health services have particularly serious implications for women because they address the family's health needs before their own. It is difficult for NGOs to organize programs that will help women look after their own health because food, income, and shelter for their families take precedence over personal health.

Abortion is the leading cause of maternal mortality in women between the ages of fifteen and twenty-four in Peru and is the most frequent cause of hospital admissions among women throughout Latin America. It has increased and will continue to rise because women lack access to safe contraception. Maternal mortality rates in general will likely rise because of women's lack of access to or inability to pay for health care.

In rural areas cut-backs and producer support services have affected women farmers whose access to land, credit, and extension services is already limited. Increased export production has resulted in greater demand for both women's paid and unpaid labor. Consequently, the time for food production and artisan activities, on which they have depended for their income, is reduced. This has serious implications for food security throughout Latin America because women grow 40% of the food crops. And finally, girl's access to education, which is already limited, declines further as government expenditures are cut, school fees rise, and their labor is needed for household duties and child care when their mothers need to work. Data suggests that although this was avoided in Latin America in the 1970s, it is happening in the 1980s.

What women are doing to survive in these kinds of circumstances can be divided into three parts: increased participation in the labor force; an intensification of household survival strategies, including self production of goods and services, income transfers between households, and changes in dietary and consumer patterns; and third, increased levels of collective action-ranging from mother's clubs and communal kitchens to political activity. Women have built social and political networks with linkages to other non-governmental organizations to survive, albeit at increasing cost to their leisure, their health and their sleep.

Declining economic conditions and growing poverty have pushed women into the Latin American labor force in increasing numbers, particularly into the informal sector. Worsening economic conditions have forced a growing number of men to migrate to urban areas or to other countries in search of work or to desert their families. The supply of women workers has thus increased as the number of women-headed households, estimated to be about 30% in urban Latin America, grows. The situation is most serious in Central America where civil wars have left thousands of women widows and refugees who are the sole support of their families. Women work in the informal sector because they lack access to the resources that provide alternatives, such as education and training and because opportunities for women in formal sector employment are limited. In Lima, stores, offices, and banks hire young single "white" women. This rules out the most recent migrants to the area, Indian women from the high sierra. The informal sector also provides the flexibility women need to balance household production, nurturing, and reproductive responsibilities.

Women are employed in the informal sector as domestics, vendors, laundresses, and prostitutes. They sometimes work as domestic

Outworkers which means sub-contracting for larger enterprises, very often multi-nationals. Women accept these jobs even though they receive no benefits and are generally paid less than minimum wage because they can work in their homes. In rural areas poor women are becoming agricultural wage laborers at a faster rate than in the 1970s. This is particularly noticeable in Mexico, and in Honduras where women make up 40% of the wage labor force in tobacco production and 90% in coffee production.

How have they survived in their homes? Family income is stretched by producing goods at home, by cultivating urban gardens, by adding additional wage earners to the family i.e. children who are taken out of school, or by making use of extended family or neighborhood networks. They barter with for food with family members who live in rural areas. Income transfers occur between households in both cash and in kind. One of the most important sources of non-wage income for women are the remittances that they receive from abroad, particularly from the U.S. UNICEF reports that the number of female headed households relying on insufficient or unstable remittances has grown. Changes in consumption and dietary patterns have meant the use of cheaper sources of calories such as rice or potatoes, with a declining protein intake of meat, milk, and eggs. Some families take in lodgers to increase income and many women have organized day care centers in their homes.

Collective action presents perhaps the most interesting potential for women in the future. One overwhelming characteristic of the young towns around Lima, the *pueblos juvenes*, is the level of organization in which women play a very, very important role. Women have organized themselves to deal with the traditional female tasks of child care, food production, and health. Mother's clubs and *Vaso de Leche* programs distribute food and organize child care and primary health services. Many of these programs are supported by the Catholic Church or by different NGOs. In Lima, Santiago, and other cities, women have organized communal kitchens. Groups of fifteen to fifty women buy and prepare food collectively. Families pay according to the number of meals requested. Communal kitchens save food costs and relieve women of a major component of their daily routine of shopping, preparing, and serving of food, thus freeing their time for income generating activities. Some of the communal kitchens have nutrition education programs and growth monitoring systems for children. But they monitor the children's nutrition and not the mother's. In a study of 100 communal kitchens in Lima, two

thirds of the women interviewed complained of fatigue and illness and one third suffered from anemia.⁷³

Some communal kitchens offer literacy programs and a few even have sewing workshops. There is strong evidence that the mother's clubs, communal kitchens and *Vaso de Leche* programs in Lima will become increasingly involved in small income generating projects. This raises serious questions because the majority of small income generating projects have not been particularly successful. Women are active in community health programs, particularly in the organization of primary health care-immunization vaccination campaigns, environmental sanitation, health education and the treatment of common diseases and injuries. They work as paid community-based distributors for family planning programs and they give injections for which they are also paid. Community health work can provide an opportunity to move into more permanent paid employment with a family planning program in the private sector or as a para-professional with a Ministry of Health clinic.

Communal kitchens, mother's clubs, the *Vaso de Leche* programs and other women's groups in *pueblos jovenes* are "finishing schools" for women who are motivated to assume more active roles in the community.⁷⁴ Many go on to work on community projects such as potable water, electricity, garbage collection, and are sometimes elected as *dirigentes* or local leaders of their community or municipal councils. In Lima, women play such an important role in the provision of services in the young towns that when the government organized a temporary income support program of food supplements and work, so many women lined up that the community groups and organizations were left without members or leadership. Women's social movements have risen as a response to the economic crisis. In Lima there is a federation of barrio women's clubs assisted by professional women and professional women's organizations. This represents the linkage of women on the outside and poor women in the communities.

Women protest the rising cost of food, the lack of public transportation, the cut-backs in health care, and the increased costs of other basic needs. They confront the state directly because of their frustration with male dominated political parties and labor unions that are

⁷³ See Violeta Sara-Lafosse, La familia y la mujer en contextos sociales diferentes. Lima: Pontificia Universidad Católica del Perú, Departamento de Ciencias Sociales, 1978.

⁷⁴ Ibid.

remarkably unresponsive to their needs. Although these movements arise from women's needs as wives and mothers for services, they are transforming women into a new political force in Latin America. As poor women have become better organized and more politicized they have also learned to manage their independence and to deal on a more equitable, less charitable, basis with the organizations that provide services. The real challenge to Lima's political parties and unions is to channel the energy and capability of women in the *pueblos jovenes* constructively so that they do not join the Sendero Luminoso or the Túpac Amaru.

There are at least four strategies to ease the short term pain. Clearly there have to be more equitable policies or strategies to bring about a more equitable distribution of food, housing, and health care. Time, money and education are the three major interrelated factors that influence women's capacity to support their families so policies must reduce time conflicts, increase their productivity and raise their educational levels. Women need access to health care-particularly health care to protect mothers and children. This includes maternal child care services, treatment for sexually transmitted diseases, and other gynecological problems, infertility counseling, and access to safe contraception. Health services ought to be brought to communities to save women the time and money spent in travel. Support for day care is critical because it increases women's employment options while providing a convenient location for the provision of health and nutrition care to children.

Secondly, for women in the informal sector, credit programs with flexible collateral and repayment requirements and access to technical assistance are essential to increase women's productivity and income. Literacy and primary education for women, because of their long term impact on employment prospects, are very important. Flexible timing, to fit in with their schedules, too seldom done in informal education programs for adult women, will increase attendance and reduce drop out rates.

Finally, revision of laws limiting women's access to land and income producing property are critically important, particularly as the number of women left in charge of subsistence agriculture in rural areas increases. Centers for food production which provide credit and extension services are necessary so the shift to export crops will not further reduce women's income and food supply. Training programs near their homes are also needed. Gender desegregated research is needed so that policies such as the ones outlined above can be based on hard data.

DISCUSSION

The role of women in the Sendero movement was addressed by several participants. Two issues of particular interest were; how women could be kept out of Sendero and if it might be considered a women's liberation movement. NGOs feel that their programs must be stronger to represent a credible alternative to Sendero and Túpac Amaru. Both of these groups have been increasingly successful in their recruitment of women.

One participant added that up to 75% of Senderistas are female. Even though women in major leadership positions have been captured it is unclear whether this is truly women's liberation. Lima feminist groups are concerned that there are so few alternatives that women turn to terrorist groups. Yudelman responded that the political parties in Peru are largely unresponsive to the concerns of women.

Structural adjustment, noted another participant, is not a bad thing. A roll back of the state creates opportunities for peasant-run enterprises. In Mexico a para-statal food distribution system is likely to be cut substantially and peasants are preparing to fill the gap it will leave.

Portes responded that structural adjustment does not necessarily mean that the state drops inefficient enterprises which then opens spaces for entrepreneurs. The poor are directly affected by cuts in subsidies and the void created by the state's withdrawal is not always magically filled by the private sector. Growth has not come in areas where the state has completely withdrawn, but in those areas where there has been local support for popular enterprise such as credit, training programs and marketing assistance. The state inefficiency argument is used to justify the implementation of policies with a direct negative distributive effect. Though there is some truth to the argument that the roll back of the state will create spaces, it should not be relied upon.

Annis added that there is some dispute regarding potential short-run advantages to private enterprise filling the spaces. It is often argued that structural adjustment will help the poor in the long-term though they will suffer in the short-term. The profound issue which remains is to identify the long-term consequences of structural adjustment. The key to these policies is often export orientation. As a development model, what consequences does that have for the poor?

In regard to filling the spaces vacated by the state, it was suggested that the involvement of PVOs is often a political question. What is the long-term advantage of people becoming more dependent on U.S. PVOs? The result is that Latin American countries are relieved of the responsibility to care for their own population. The speaker suggested that the anti-statist message is a product of the political agenda of American PVOs.

Annis responded that people are sensitive to the limits of state responsibility. There is an emphasis, sometimes of ideological proportions, on what people can do for themselves. Interestingly enough, the poor do not complain that the state is oppressive. It is the conservatives and some Latin American intellectuals who insist on getting the state "off the backs" of the poor.

In Mexico City, noted one participant, popular movements have changed their strategies from simply trying to exert pressure on the state to viewing themselves as serious negotiators. When the state is dismantling and reallocating resources, the groups are no longer content to stand in the street shouting but instead insist on negotiating with the state.

Protest groups have begun using higher technology in their operations. In the second phase of Mexico's post-earthquake housing program, the government did not expropriate additional land. The barrio organizations said that they should be taking more land and proceeded to compile a list of 20,000 properties to be expropriated and a list of 20,000 families in need of housing. The organizations are able to gain information which means they have a stronger negotiating base from which to work. These groups are now able to deal politically with the state.

William Glade remarked that the prevailing perception twenty-five years ago was that Latin America lacked intermediate organizations. In fact, it was argued that their culture was antithetic to the development of intermediate organizations. Have changing conditions spurred this growth of organizations or was their apparent absence a misperception? Glade also asked if the activities described in the three presentations reach the very poorest or just the urban poor.

The preponderance of organizations, according to Yudelman has been triggered by events in each country. The 1968 Bishop's Conference in Medellín (CELAM) was a major event which brought about the birth of many organizations in Mexico City, for example. The growth of women's movements is due to the "decade of women". Again, Mexico City is an

example of this phenomenon. In Central America and parts of South America, the responsibility can be attributed to the Peace Corps, AID and the Church.

Alejandro Portes agreed with this assessment and added that pre-1970 organizations were not durable. Once their very focused goals were reached, these individualistic organization collapsed. There are three basic explanations for the strength and durability of the new popular organizations. First of all, the magnitude and duration of the crisis has given more people a desire to become involved. Secondly, there is now an active presence of outside actors such as the Church, which have been fundamental in forming a new discourse. Finally, the changing world economy has brought Latin America into the system to a larger extent. The new expectations of the population, fueled by television for example, clash with reality. These new changes mean that the organizations will not simply fold when the crisis is resolved.

The density and variety of organizations, says Annis, corresponds to the level of economic development within the nation. According to this hypothesis, there are more organizations where the people are educated and are from a diverse economic background. The growth of these organizations is thus a positive result. The crisis has forced an alliance of the poor and those who are economically poor but sociologically middle class. The rural poor may however be excluded.

Peter Henriot challenged Annis' definition of organizational levels since being wealthy allows a person to be more independent. Annis responded that the rich have a greater access to information which means that they are able to exert influence. The organizations may take different forms but their political function is identical.